Canadian Transport Commission | Commission canadienne des transports

Air Transport Committee | Comité des transports aériens

# Final Report

## of the Air Transport Committee of the Canadian Transport Commission on the Adequacy of Air Services in Northern and Remote Areas

Canada

86-1029/

Commission canadienne des transports | Canadian Transport Commission

Ottawa, Ontario,
K1A 0N9

March 18, 1985

The Hon. Jean Marchand, P.C.
President,
Canadian Transport Commission.

Dear Mr. Marchand,

We submit herewith our Final Report on the Adequacy of Air Services in Northern and Remote areas.

Our Summary Report was submitted to you on November 13, 1984.

Yours sincerely,

(Signed)
Robert J. Orange,
Commissioner
Chairman

(Signed)
J.L. Bourret,
Commissioner

(Signed)
D.H. Chapman,
Commissioner

Canada

# FINAL REPORT OF THE AIR TRANSPORT COMMITTEE OF THE CANADIAN TRANSPORT COMMISSION ON THE ADEQUACY OF AIR SERVICES IN NORTHERN AND REMOTE AREAS

March, 1985

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## FOREWORD

In the spring of 1984, the Air Transport Committee undertook an examination of domestic charters and air fare issues encompassing all of Canada. Following upon this investigation and in response to requests from residents who identified the unique operating environment, a second Panel was established with the responsibilities to examine the adequacy of air services in northern and remote areas. During the months of June and July, the Committee held hearings in nineteen communities from Lourdes-de-Blanc-Sablon on the Basse Côte Nord to Watson Lake and Dawson City, Yukon. The participation of the interested parties - the municipal, provincial and territorial governments, unions, consumer groups, private individuals and the air carriers - was enthusiastic, positive and very helpful in preparing the Report's recommendations. In this same context, the contribution of staff members of the Canadian Transport Commission - Research Branch - Richard Fosbrooke and Daniel Laprade; Air Transport Committee - Paul Berlinguette; Legal Services - Wendy Burnham; Communications - Evan Browne; Translation Services - Mrs. Paulette Costello; Publications Division - Michel Traversy - during the hearing process, throughout the ensuing discussions and in the preparation of the Report is gratefully acknowledged.

The Committee recognizes that implementation of the recommendations to accomplish the goals and objectives set out in the Report will require the support and cooperation not only of the Air Transport Committee but other agencies and levels of government as well as the air transport industry. Early attention by those responsible to these matters will further enhance the national sense of equity and unity which the Committee experienced in every location throughout this inquiry.

Robert J. Orange
Commissioner and Chairman

J.L. Bourret
Commissioner

D.H. Chapman
Commissioner

March 1985

Canada

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# THE ADEQUACY OF AIR SERVICES IN NORTHERN AND REMOTE AREAS

## SUMMARY OF RECOMMENDATIONS

In conducting this Inquiry into the adequacy of air services in Canada's northern and remote areas the Air Transport Committee (ATC) held public meetings at nineteen communities*. Having benefitted from receiving the views of concerned citizens, the organizations of which they are members, their governments and the air carriers which serve them, our Report addresses the socio-economic concerns which were raised with an emphasis on the various alternatives and the most efficacious means to reduce the cost of air travel "to/from and within" (hereafter defined as "in") northern and remote areas.

As we reflected upon all the evidence which we heard and read, there are certain principal facts which stand out vividly from the public's submissions and which we wish to highlight:

1) The tone for the Inquiry, which was repeated throughout all the subsequent discussions, was set on the very first day at Lourdes-de-Blanc-Sablon, when Mr. J. Moyen, Directeur Général, Centre de Santé de la Basse Côte Nord, stated that **air transportation in this area is a necessity and not a privilege.** The theme of the essential nature of air services in northern and remote areas is, in our opinion, an undeniable reality; for many communities, there are no other alternatives: (a) to facilitate personal interaction with friends,

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*The locations are as follows:

Phase 1
Lourdes-de-Blanc-Sablon
Goose Bay
Sept-Îles

Phase 2
Rankin Inlet
Baker Lake
Spence Bay
Coppermine

Phase 3
Fort Smith
Fort Simpson
Watson Lake
Dawson City
Inuvik

Phase 4
Thompson
Sioux Lookout
Moosonee

Phase 5
Kuujjuaraapik (Poste-de-la Baleine, Great Whale)
Kuujjuaq (Fort Chimo)
Frobisher Bay (Iqaluit)
Pangnirtung

relatives and business colleagues elsewhere in Canada; (b) to access medical facilities; and (c) to obtain needed food supplies, building materials and other vital essentials.

2) There is a number of common aspects to the demand for air services throughout all northern and remote areas; however, the manner in which these demands are met, reflecting perhaps the thinness, fragility and seasonality of many of the markets, and the ensuing satisfaction which is realized by consumers varies significantly from one area to another.

3) In comparison with air carrier operations in southern Canada, there is no question that air services in northern and remote areas are more expensive to provide and that air fares, as a consequence, are correspondingly higher; the high cost of travel is a major concern of residents.

4) By way of responding to the travel requirements of residents within northern and remote areas and as a means of reducing the high costs of that travel, certain local service air carriers have successfully introduced low-priced air fare programs specifically designed for the operating environment of these areas; inasmuch as comparable fare products have been only recently introduced by the larger air carriers in the major markets of southern Canada, this development within northern and remote markets is noteworthy and commendable. We note, however, a certain lack of consumer awareness of many of these low-priced air fare products throughout these areas.

5) In the context of marketing and providing air services in northern and remote areas, it is essential that Canada's Native Peoples participate in these operations as much as possible and that opportunities to develop the required skills be provided; at present, this is not the case.

6) The condition of many of the airports and especially the lack of appropriate navigation aids and infrastructure is a visible reminder of the need for a long-term program for airport development within northern and remote areas; only by instituting and maintaining such a program can a truly reliable, cost-efficient system of air transport be developed for residents.

Both air transportation policy and regulation concerning air services in northern and remote areas must continue to evolve in a manner which benefits the communities served and the consumer of these services and which encourages the air carriers to provide an adequate and cost-efficient air service. With due reference to the often-times difficult operating environment throughout these areas, in our opinion these objectives can be best realized by recommending solutions to improve service to consumers which include enhanced access to the lowest possible air fares, and to reduce the regulatory burden on the air carriers and to encourage competition between the carriers where achievable.

In order to accomplish the preceding, we have made the following recommendations:

**Greater Use of Native Peoples' Languages**

In order to enhance consumer awareness, we encourage the air carriers providing service in northern and remote areas to avail themselves of the existing media outlets in addition to local community groups to publicize their fares, cargo rates and schedules as widely as possible in the local Native People's language. At the same time, we wish to recommend that CBC Northern Services re-examine its policy with respect to items of concern to its local listeners--such as available air carrier discount fares and schedules in the areas--and to make itself much more accessible to what is in effect a public service announcement.

It is our opinion that there is also a definite demand for travel-related information in the Native Peoples' languages. We encourage the air carriers to assist the Native Peoples in making travel arrangements by providing, wherever feasible, telephone reservation services and related schedule information as well as airport check-in assistance and in-flight service announcements in the appropriate Native People's language.

**Safety**

In the interest of safety for the travelling public, we recommend that the air carriers, in conjunction with the Aviation Regulation (Canadian Air Transportation Administration), commit themselves to ensuring that in-flight emergency information, where applicable, be readily available on the aircraft in the appropriate Native People's language.

**Enhanced Employment Opportunities for Native Peoples**

There is a need to increase Native Peoples' involvement in providing air services in northern and remote areas. At the same time there may be limited numbers of Native Peoples with the required skills preventing air carriers from augmenting their presence. From our perspective, an obvious solution to enhance employment opportunities for Native Peoples is the provision of various relevant training programs--including on-the-job training--funded by Employment and Immigration Canada. In addition, where there is an identified requirement for a more formalized program, we recommend that the Governments of Yukon and the Northwest Territories and Indian and Northern Affairs Canada together with provincial educational authorities consider jointly sponsoring such a program at an educational institution like Thebacha College in Fort Smith, NWT.

**Subsidy**

**We do not recommend that the Government of Canada design and implement a direct subsidy program in connection with air services in northern and remote areas.**

Many of the existing subsidy programs for air services currently in effect throughout Canada appear to offer little incentive to economically efficient operation. In view of this, **we recommend that the Government, with the assistance of the Air Transport Committee, undertake a review of the need for the subsidies currently being paid to Quebecair and EPA.** If these subsidies are still deemed to be in the public interest, then a cost-effective, incentive-based subsidy program should be designed in co-operation with the appropriate provincial governments.

**Capital Asset Acquisition Program**

**We recommend that the Government of Canada work with private enterprise to reduce the short-term risk associated with the provision of air services in northern and remote areas by designing and implementing a much-needed, front-loaded venture capital program to enable air carriers to acquire appropriate aircraft.** Should this program be implemented, the ATC could ensure that all such assistance to air carriers is reflected in the subsequent fares and cargo tariffs charged to consumers in these areas.

**Government Taxes, Fees, Charges, etc.**

Many of the air carriers and residents, while expressing concern over the high cost of operations in northern and remote areas, noted that certain costs (fuel, landing fees and other airport user charges) are under the control of the federal and provincial/territorial governments. **If a concerted effort was made to eliminate government fees, taxes, charges etc., at airports throughout northern and remote areas, the total costs of travel could be lowered by as much as 15-20%. As such, we suggest to the federal government that it consider lowering or preferably eliminating the federal sales tax, excise tax and airport fees, where applicable, applied to the price of fuel uplifted within northern and remote areas and that the provincial/territorial governments adopt similar measures of tax relief. We also suggest the complete elimination of airport landing fees and the Canadian Air Transportation Tax as a further step toward cost reduction for airline operations.**

In order to ensure that the consumer would immediately benefit from such actions, we suggest that the ATC be charged with the responsibility to examine closely the tariff filings of the affected carriers so that all such savings as might be occasioned by these cost reductions are passed on fully to the consumer.

**General Pricing**

We recommend that the ATC continue to take an active role in monitoring fares and services in northern and remote areas. This not only involves reviewing applications for general fare increases but undertaking a more pro-active role with regard to the concerns of the public.

**Discount Fares**

We recommend that air carriers operating in northern and remote areas be given the same downward flexibility as granted carriers operating in the pro-competitive environment in southern Canada.

Many participants stressed the importance of air travel as a means of visiting friends and relatives but indicated that certain conditions such as advance purchase and minimum stay requirements associated with special fares are not compatible with the lifestyle of the residents in these areas since they hamper spontaneous travel.

As such, we encourage the adoption by all carriers providing service within northern and remote areas and its acceptance by the Air Transport Committee of pricing practices (for example, standby fares available to all consumers) to facilitate ease of travel within "communities of interest".

With respect to travel in these areas, we encourage the carriers to make deep discount inventory controlled fares accessible to residents of northern and remote areas.

**Access to Through Fares, Joint Fares and Reservation Systems**

We encourage all air carriers operating in northern and remote areas to make use of through fares and joint fare arrangements as well as to reach joint marketing arrangements which provide significant economies to consumers.

We encourage all carriers operating in these areas to acquire and to implement computer reservation systems; this should enable the smaller carriers to effect a better awareness and control

over requested capacity such that customers might be more readily and assuredly informed as to seating availability on any given flight. Where possible, with respect to joint configuration (passenger/freight) aircraft, some reservation system should be attempted with respect to space available for cargo and mail in order that both passengers and priority freight can be accommodated.

**Cargo Services**

We recommend that any cost savings derived from the programs designed to lower fuel costs, airport user fees, etc., also be reflected in future cargo rates applicable to the movement of goods in northern and remote areas. It is anticipated that this will not only lower the costs of transport for both passengers and cargo but aid, in some measure, in encouraging the economic development of many of these areas.

We recommend that any future applications for cargo-related rate increases continue to be closely examined by the ATC to ensure that proposed increases are fully justified.

In an attempt to alleviate the uni-directionality of cargo shipments, many of the air carriers operating in northern and remote areas have introduced special rates to stimulate southbound traffic. We encourage all air carriers to implement and the Air Transport Committee to accept innovative pricing practices to stimulate southbound cargo traffic.

**Mail Carriage**

With its re-organization into a crown corporation Canada Post has begun to re-negotiate its mail service contracts in northern and remote areas with the intent of relying on cheaper surface transport to the extent possible and lowering the cost of its existing contracts with the air carriers. We are determined that the interests of communities should not suffer as a consequence of the new attitude of Canada Post and therefore recommend that the Government of Canada and Canada Post seriously reflect upon the various trade-offs and the consequences which their actions, if unco-ordinated, might precipitate; this issue should also be addressed in the context of the on-going monitoring role of the Commission with respect to these air services.

An important aspect drawn to our attention is the role of Canada Post in distributing food-stuffs to residents in northern and remote areas throughout Canada. We observe that this practice is a very effective means by which to lower the cost of transporting food-stuffs to these areas.

**The Line of Demarcation**

**We recommend the maintenance of the proposed line of demarcation separating the regulatory approach in northern and remote areas from that in southern Canada; there should, however, be at least one alteration: the intercept on the Manitoba-Saskatchewan border should be at 53°N rather than 55°N to include the communities lying on the Canadian Shield in Manitoba.**

**Role of Competition:**

**1) Intra-Northern and Remote Area Markets**

**We recommend that all applications for new year-round unit toll operations within these areas continue to be determined on the basis of present and future public convenience and necessity.**

Air carriers operating unit toll services within these areas could continue to enjoy a limited form of route protection from the operations of a non-scheduled (charter) carrier. However, as a means of encouraging reasonable pricing practices, **we recommend that any unit toll carrier with route protection be required to demonstrate to the ATC the impact on its operation which a waiver might occasion. In making its judgement, we recommend that the ATC place increased emphasis on the benefits of competition.**

**2) North/South Markets**

While not advocating an "open skies" policy and with due concern for the maintenance of a high quality, year-round service, **we are convinced that it is appropriate for certain northern and remote area communities (see Table) to receive a limited amount of additional unit toll air service to/from southern Canada by another carrier and to extend thereby the benefits of a competitive marketplace. We suggest that all applications for such new, year-round, unit toll air services by another carrier to/from these points be licensed by the ATC on the basis of present and future public convenience and necessity but which also places an increased emphasis on the benefits of competition.**

Table

**NORTHERN AND REMOTE AREA COMMUNITIES WHICH MIGHT BENEFIT FROM ADDITIONAL YEAR-ROUND UNIT TOLL AIR SERVICES TO/FROM POINTS IN SOUTHERN CANADA BY (AN) ALTERNATIVE AIR CARRIER(S)***

| | |
|---|---|
| Dawson Creek, B.C. | Inuvik, N.W.T. |
| Fort McMurray, Alta. | Sept-Îles, P.Q. |
| Fort St. John, B.C. | Thompson, Man. |
| Frobisher Bay, N.W.T. | Wabush, Nfld. & Lab. |
| Goose Bay, Nfld. & Lab. | Whitehorse, Yk. |
| Grande Prairie, Alta. | Yellowknife, N.W.T. |

*Includes those communities like Sept-Îles, Wabush and Whitehorse which are presently served by two major southern unit toll carriers.

**We recommend that the suggested approach to continued regulation of intra northern and remote area unit toll air services be adopted where a community presently recipient of direct north/south air services is not on the list of possible markets for increased unit toll competition.**

**The extension of this particular more pro-competitive perspective for new, additional, year-round unit toll air services to other markets in northern and remote areas should be addressed in the context of the on-going monitoring role of the Commission and instituted whenever it is deemed feasible.**

**"Use It or Lose It" Philosophy**

We are mindful of the fact that a newly licensed applicant or incumbent air carrier may not effectively make use of its licence. In such situations, **we recommend that a carrier be asked to "show cause" why its licence should not be suspended or cancelled and another carrier awarded the licence if, in the ATC's judgement, the unit toll licensee has failed to maintain a reasonable year-round level of service to a community.**

**Service Withdrawals**

Where a licensed air carrier gives notice that it intends to withdraw from a market in these northern and remote areas, the ATC and the communities affected should be so advised by the carrier at least 60 days in advance. Assuming there is a continued demand for the service, **we recommend that the ATC should widely advertise the opportunity to provide a service from which a licensed carrier wishes to withdraw and, if need be, actively solicit applications to provide the service.**

**Licensing Application Procedures**

**We concur with the suggestions we received from the air carriers that the ATC continue to streamline the present licensing application procedures and to expeditiously consider all such applications;** further, with respect to this, we make reference to the recent Hearing regarding domestic charters and air fares issues in southern Canada and the ATC's proposals regarding these same suggestions.

**Restrictions on Licences**

We received requests from some air carriers that the Committee review the various restrictions imposed upon the existing licences for services in northern and remote areas. **We recommend that the ATC accept requests identifying specific concerns with respect to restrictions on licences from air carriers operating in these areas and**

**review the need for such restrictions within the context of a more competitive operating environment.**

**Class 4 Positioning Charges Regulations**

We are of the view that the concept of protecting a charter carrier's base by requiring a non-base carrier to assess a mandatory surcharge not related to any actual work performed, and which penalizes the user of the charter service, is inequitable in principle and impractical to enforce. Consequently, **we recommend that the Class 4 Positioning Charges Regulations be abolished.**

**Base Protection for Charter Carriers**

A small charter operator's first objective is to serve the air transportation needs of the location named in its licence. **We recommend that to prevent the policy of fixed-wing base licensing for charter carriers in northern and remote areas from becoming meaningless, charter air carriers operating aircraft in Groups A to E should be provided a degree of protection and exclusivity by means of regulatory base protection.** Under this proposal, an air carrier licensed to perform fixed-wing charter air services using aircraft in specified weight groups at a particular base in northern and remote areas would have exclusive right to charter traffic from that base. If any other Class 4 charter operator seeks to enplane passengers or goods utilizing aircraft of the same group as the group for which a carrier is licensed to operate from that base it would have to have a written authorization from that carrier.

**In the event that an accord for a waiver of regulatory base protection cannot be reached between the applicant and the base charter carrier, the dispute will be referred to the ATC. The base carrier must demonstrate to the Committee the impact on its operations which a waiver of said base protection might occasion. In making its judgement, we recommend that the ATC place increased emphasis on the benefits of competition.**

**Licensing of Charter Carriers**

**We recommend that, having once demonstrated present and future public convenience and necessity, licensed charter carriers authorized to operate aircraft in Groups A, B or C be exempted from all but the financial, insurance, ownership and operational requirements of licensing for any subsequent application(s) to provide services using fixed-wing aircraft in weight Groups A to C for which they have not been licensed previously.**

**Reporting Requirements and Travel Conditions**

We recommend that the ATC review its procedures with a view to lessening unit toll and charter airline statistical reporting requirements. We also recommend that the ATC examine by seeking and acting upon the advice of air carriers, tour operators and the public with respect to:
(1) the extensive paperwork requirements associated with the operation of Advance Booking Charters and Inclusive Tour Charters; and
(2) the travel conditions associated with the preceding types of charters including the relevance of the minimum stay requirement for tourist markets such as hunting and fishing operations.

**Monitoring**

In announcing the New Canadian Air Policy, the then Minister of Transport stated with respect to northern and remote areas that "There is a need also for regular CTC hearings on the adequacy of service and for more active CTC monitoring of the performance of carriers operating in this part of the system, to ensure that they serve their public as well as possible"*. This sentiment was shared by the public in these areas.

In setting up this monitoring process, we recommend: (1) that a number of specific monitoring sectors be designated**; (2) that for each monitoring sector the ATC nominate a specific Commissioner and Commission staff members who together with representatives nominated by the provincial/territorial government(s) will form a co-ordinating committee; (3) that each co-ordinating committee ensure that an on-going review process is instituted and that public meetings with respect to the adequacy and quality of air services in the monitoring sector are held (a) at least every two years, (b) at accessible locations in the communities in the sector, and (c) at times convenient to the citizens of these communities; and

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*"New Canadian Air Policy", Hon. L. Axworthy, Minister of Transport, 10 May 1984, p.6.

**For the northern and remote areas, these monitoring sectors would be: La Basse Côte Nord and Labrador; Nouveau Québec, Baffin Island and the Eastern and High Arctic Islands; northern Manitoba and northern Ontario; the Keewatin and the Kitikmeot region; the Mackenzie River Basin, northern Alberta and northern Saskatchewan; Yukon and northern British Columbia.

(4) that at the termination of the public meetings in each monitoring sector, the co-ordinating committee ensure that a timely report on the adequacy and quality of air services is prepared and presented to the Air Transport Committee (and if the President of the Commission deems it appropriate, it may be transmitted to the Minister of Transport) for consideration and action where required.

We are of the opinion that an on-going monitoring process may also be relevant to air services in specific areas of southern Canada and, as such, recommend that the ATC consider its institution in any parts of southern Canada where it would be useful.

**Airport Infra-Structure**

At each location we visited across the country various representatives of communities, air carriers and territorial/provincial governments detailed their problems and concerns related to airport infrastructure in northern and remote areas of Canada. After hearing these concerns we have concluded that they warrant consideration and action. Sharing the concerns of those who appeared before it, we encourage the Minister of Transport to continue to fund the Arctic Air Facilities Program (or an equivalent program) and thereby to develop a reliable means of access to northern and remote areas in Canada. In our opinion, construction of adequate runway facilities and other airport infrastructure, including the deployment of suitable all-weather navigation aids and the like, is an essential and integral step to the realization of adequate, reliable, low-cost air transport to these communities. We encourage the various parties responsible for the provision and maintenance of airport infrastructure and facilities, which are essential to ensure any access to most of the communities in these areas, to co-ordinate their activities with a view to arriving at an agreed standardization of what constitutes an adequate airport infrastructure (length of runways, navigation aids and the like).

Chapter 1

# THE FOUNDATIONS OF THE INQUIRY

## 1.0 Introduction

This Report presents the observations and recommendations of the Air Transport Committee (ATC) with respect to the adequacy of air services in northern and remote areas of Canada. In preparing our analysis, five phases of public meetings at 19 communities* throughout these areas were held at which we had the benefit of receiving the views of concerned citizens, the organizations of which they are members, their governments --provincial or territorial as well as municipal--and the air carriers which serve them. Their thought-provoking opinions as well as numerous written submissions which were received by the Committee provided an excellent basis for our deliberations**. We are most grateful to all the individuals who have given both time and effort to participate in these meetings, and we wish to assure them that their testimony was fully considered in the formulation of our recommendations.

The origins of this Inquiry lie in the response of the Air Transport Committee to a request by the Minister of Transport that it hold a public hearing on domestic charters and air fare issues. When the Committee first announced this

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*The locations in each phase are as follows:

Phase 1
Lourdes-de-Blanc-Sablon
Goose Bay
Sept-Îles

Phase 2
Rankin Inlet
Baker Lake
Spence Bay
Coppermine

Phase 3
Fort Smith
Fort Simpson
Watson Lake
Dawson City
Inuvik

Phase 4
Thompson
Sioux Lookout
Moosonee

Phase 5
Kuujjuaraapik (Poste-de-la Baleine, Great Whale)
Kuujjuaq (Fort Chimo)
Frobisher Bay (Iqaluit)
Pangnirtung

**A summary of the evidence submitted throughout the course of this Inquiry is to be found in the companion volume to this report.

hearing in late 1983, the residents of northern and remote areas suggested there were special concerns which were relevant only to these areas which might not receive all the attention which they would otherwise warrant in the context of a hearing encompassing every part of Canada. While the Air Transport Committee held sessions in every province and the two territories such that it was able to make a number of recommendations relating to air transportation in Canada*, it concurred with the opinions of the northern and remote areas' residents that theirs was a unique situation which deserved a more detailed examination. The Committee therefore decided to conduct a review of the costs of air transportation in northern and remote areas as soon as possible after the "all-Canada" public hearing.

The need for such an investigation was also recognized in the announcement by the then Minister of Transport of a new policy with respect to domestic air services** in which the Minister restricted the changes being made to the regulation of air car-rier operations to southern Canada--a geographic area designated by a line of demarcation*** which also defined the dimensions of the northern and remote areas--until such time as their relevance to the northern and remote areas could be determined. In limiting, possibly only for the moment, the application of the new air policy while more pertinent information was sought, the need to respond to the Minister's directive and to address the cost of air travel in northern and remote areas in a broad context which reflected all the factors which have a bearing on it was readily apparent to us. As a consequence, with respect to air services "to/from and within" (hereafter defined as "in") northern and remote areas the Inquiry set out to address, inter alia:

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*"Interim Report of the Air Transport Committee of the Canadian Transport Commission on Domestic Charters and Air Fare Issues", Ottawa, 9 May 1984.

**"New Canadian Air Policy", Hon. L. Axworthy, Minister of Transport, Ottawa, 10 May 1984.

***The line of demarcation as proposed by the Minister of Transport followed the 50th parallel from Canada's east coast to the Ontario-Manitoba border, a diagonal line from this intercept to another at 55°N on the Manitoba-Saskatchewan border, and then along the 55th parallel to Canada's west coast.

- the demand for and supply of air services;
- the significance of the line of demarcation to air carrier operations;
- the need for and extent of competition between unit toll carriers and charter carriers;
- the basis for setting, the justification of, and the practices associated with the solicitation, sale and promotion of air fares and cargo rates for air services;
- the need for changes to regulatory practices pertaining to the various restrictions imposed on air carrier licences as these relate to operations; and,
- the requirement for and the means of implementing an on-going review process of air services.

As the Inquiry commenced and proceeded, it became obvious to us that the public saw it as the forum in which the whole gamut of concerns related to air carrier services might be raised. The list of topics which were addressed to us was thereby expanded to include a number of socio-economic concerns relevant to air services in northern and remote areas:

- the languages used to market and to provide the services;
- the role of the media in enhancing public awareness of air fare products and air services;
- the participation of Canada's Native Peoples in the provision of the services;
- the need for construction of or improvements to existing airport facilities and associated infrastructure at numerous communities; and,
- an intensified emphasis on the various alternatives and the most efficacious means of reducing the cost of air travel.

As we reflected upon all the evidence which we heard and read, there are certain principal facts which stand out vividly from the public's submissions and which we wish to highlight:

1) The tone for the Inquiry, which was repeated throughout all the subsequent discussions, was set on the very first day at Lourdes-de-Blanc-Sablon, when Mr. J. Moyen, Directeur Général, Centre de Santé de la Basse Côte Nord, stated that **air transportation in this area is a necessity and not a privilege.** The theme of the essential nature of air services in northern and remote areas is, in our opinion, an undeniable reality; for many communities, there are no other alternatives: (a) to facilitate personal interaction with friends, relatives and business colleagues elsewhere in Canada; (b) to access medical facilities; and, (c) to obtain needed food supplies, building materials and other vital essentials.

2) There is a number of common aspects to the demand for air services throughout all northern and remote areas; however,

the manner in which these demands are met, reflecting perhaps the thinness, fragility and seasonality of many of the markets, and the ensuing satisfaction which is realized by consumers varies significantly from one area to another.

3) In comparison with air carrier operations in southern Canada, there is no question that air services in northern and remote areas are more expensive to provide and that air fares, as a consequence, are correspondingly higher; the high cost of travel is a major concern of residents.

4) By way of responding to the travel requirements of residents within northern and remote areas and as a means of reducing the high costs of that travel, certain local service air carriers have successfully introduced low-priced air fare programs specifically designed for the operating environment of these areas; inasmuch as comparable fare products have been only recently introduced by the larger air carriers in the major markets of southern Canada, this development within northern and remote markets is noteworthy and commendable. We note, however, a certain lack of consumer awareness of many of these low-priced air fare products throughout these areas.

5) In the context of marketing and providing air services in northern and remote areas, it is essential that Canada's Native Peoples participate in these operations as much as possible and that opportunities to develop the required skills be provided; at present, this is not the case.

6) The condition of many of the airports and especially the lack of appropriate navigation aids and infrastructure is a visible reminder of the need for a long-term program for airport development within northern and remote areas. Only by instituting and maintaining such a program can a truly reliable, cost-efficient system of air transport be developed for residents.

Both air transportation policy and regulation concerning air services in northern and remote areas must continue to evolve in a manner which benefits the communities served and the consumers of these services and which encourages the air carriers to provide an adequate and cost-efficient air service. With due reference to the often-times difficult operating environment throughout these areas, in our opinion these objectives can be best realized by recommending solutions to improve service to consumers which include enhanced access to the lowest possible air fares, and to reduce the regulatory burden on the air carriers and to encourage competition between the carriers where achievable.

## 1.1 Outline of the Report

The Report which we have prepared in order to address the many concerns which we heard throughout our meetings in

northern and remote areas is, for convenience, divided into a number of chapters which consider specific topics but which are cross-referenced inasmuch as it is our opinion that our analysis and recommendations are closely interrelated and must not be seen in isolation.

Chapter 2 is a reflection upon a number of social and economic concerns which influence the adequacy, quality and price of air transport services in northern and remote areas.

Prices and their relationship to air carrier costs, as these pertain to unit toll services in these areas, are considered in Chapter 3, while the regulatory factors which impact on charter services are evaluated in Chapter 4.

Chapter 5 presents our deliberations with respect to the need for an on-going review of air transport services in northern and remote areas.

A description of existing airport facilities and infrastructure at various communities throughout these areas is offered in Chapter 6.

In addition to the preceding, there are two appendices which briefly describe the norOntair program developed by the Province of Ontario (Appendix A), and the Essential Air Service Program implemented by the Civil Aeronautics Board in conjunction with the move to airline deregulation in the United States (Appendix B). There is also a companion volume to this Report which presents a summary of the evidence which we received at the public meetings or in written submissions.

Before proceeding to the main text which contains our analysis and recommendations, there follows immediately a brief description of the demand for and supply of air services in northern and remote areas which we hope will serve as a suitable introduction and context within which our deliberations might be considered.

## 1.2 Northern and Remote Area Air Services: A Description

Having met with and listened to consumers, their elected representatives, and the air carriers with respect to their concerns involving air transportation in northern and remote areas, we, in the context of arriving at our recommendations, reflected on the various influences on the demand for and supply of air service. In general, having perceived a certain homogeneity of demand for air transport across northern and remote areas of Canada, we could not but remark as to the heterogeneous nature of the supply of the services among these areas as well as within an individual area.

### 1.2.1 Demand

There are four fundamental components to the demand for air transport in northern and remote areas: (1) community resupply; (2) passenger transport (including movement of Native Peoples as well as visiting friends and relatives); (3) government services (mail and health care, including medical evacuations); and (4) mining, petroleum exploration and other commercial concerns. As is apparent, certain of these sources of demand are universal throughout Canada but it is the interdependent nature of the relationship between passenger and freight services and the vital role of air transport in moving the necessities of life which help to distinguish the northern and remote areas from the rest of the nation.

The monies earned from the carriage of freight constitute a significant percentage of the total revenue earned by air carriers operating in these areas--in many cases it was in excess of 40-50% of a carrier's earnings. Further to this, these movements of cargo are characterized by the virtual unidirectional nature of the flow--from southern Canada to the northern and remote areas--and the ensuing unused excess capacity in the opposite direction, all of which is doubtlessly reflected in the costs and tariffs of the air carriers.

In the context of these market characteristics with respect to the movement of cargo, the demand associated with the petroleum and mineral exploration activities is even more specialized. The need for these particular air transport services, where not fulfilled by corporate-owned aircraft, can be heavily concentrated in the summer months and, consequently, may manifest severe seasonal variation. As such, air carriers which rely upon these seasonal exploration activities to earn revenues which will assist in sustaining their year-round operations were somewhat apprehensive at the prospect of unregulated entry and exit into these markets. This freedom to operate only during lucrative periods while others are obligated to provide service throughout the year could, it is said, imperil the continued existence of these services--something which must be evaluated in suggesting any changes to the existing regulatory environment. The carriers, nonetheless, have responded to these exigencies in the present marketplace by a combination of unit toll services, where these are sustainable, and charter operations when the requirements for air transport reflect the extremes of a sparsely settled land. The significance of charter services in the overall operations of many carriers in northern and remote areas is noteworthy inasmuch as it provides, in general, at least 30% of their total revenue, and, in fact, some of the smaller air carriers rely solely on charter business.

Where there are observable differences in the demand for air transport in northern and remote areas, they tend to be associated with the availability of substitutes for air services. Communities along the Labrador coast, for example, have access to the subsidized services of CN Marine during the summer

months which definitely reduces their dependence on carriers like Eastern Provincial Airways (EPA) and Labrador Airways for the movement of certain commodities for a brief period. Similarily, where rail (as in northern Manitoba and northern Alberta) or road services (as in Yukon Territory and the Mackenzie River Basin) are readily accessible, there is a lessening of the essential role of air transport.

Where there are no readily available, year-round, alternatives to air, geographic factors in combination with certain socio-cultural considerations and other pressures interact to affect the level of demand. Various communities--such as the eastern and western Kitikmeot region, the James Bay Cree communities, the Nouveau Québec Inuit settlements, and the Baffin Island Inuit hamlets--exhibit an interdependence based upon proximity and ties among the population which are an incentive to visit friends and relatives. Unfortunately, in many of these centres the personal disposable income of the inhabitants cannot compete with the high cost of on-demand travel. Moreover, as Mr. D. Harvey, Councillor of the Hamlet of Coppermine, suggested to us, the cultural traditions of certain segments of the population do not accord with the required pre-booking periods so that the residents might avail themselves of low-priced air fare products, assuming these are offered. A final negative influence on demand arises from the difficult and limited accessibility of air carrier services to the Native Peoples in their languages such that there are glaring gaps in consumer knowledge and awareness of just what services and prices are being purveyed by some of the air carriers.

### 1.2.2 Supply

As the preceding discussion of demand might suggest, air carriers in northern and remote areas are required to respond to a number of operating conditions which vary greatly from the markets in southern Canada. The harsh climate for much of the year results in higher operating costs, (fuel which must itself be "ferried" in and stored, employees who must be paid "northern" allowances, and maintenance and capital costs from the additional wear on the aircraft) as well as in-flight delays and changes of destination. These deviations from the published schedule are a constant source of frustration to the public. Compounding the problems, as we were to learn, both carriers and consumers share a certain amount of distress surrounding the often less than adequate airport facilities and infrastructure which both must use. In certain circumstances, the existing facilities mean the carrier has to use aircraft which are less than ideal, resulting in higher costs to the carrier and the user of transport services. Costs, however, are also raised by, for example, the absence of lights and/or instrument landing systems at certain airports which effectively curtail the frequency of service and the resulting use of aircraft during the periods of inclement weather and prolonged darkness characteristic of northern and remote climates.

In contrast to the relatively homogeneous demand, the difficulties associated in providing air service effectively enable one to differentiate between the areas which comprise northern and remote Canada.

The residents of the Basse Côte Nord (Sept-Îles to Blanc-Sablon) and Labrador were quite dissatisfied with the quality of their air service. Mr. P. Rivest, Director of Air Transport with the Government of Québec, acknowledged there have been schedules and reservation systems which were not reliable, inadequate information concerning impending delays or cancellations of flights, poor connections with flights at Sept-Îles, and an unsatisfactory state of airport facilities and navigation systems. In this context, Mr. J. Moyen, Directeur Général, Centre de Santé de la Basse Côte Nord, informed us that inasmuch as Blanc-Sablon, whose medical facilities serve the whole area, does not have an Instrument Landing System (ILS) at its airport, essential medical evacuations cannot always be carried out, while Mr. K. Nelson, Town Clerk of Happy Valley-Goose Bay, discussed the difficulties to be encountered in seeking to travel into or out of Labrador. Other participants related unhappy experiences with respect to the mail services as well as the attempts to move fresh fish to markets in southern Canada and the United States and thereby develop a source of steady employment in the area. Given the absence of roads and the limited service of CN Marine resulting in an almost complete reliance upon air services, the preceding examples suggest why the residents feel they have cause to be less than pleased with the present state of air transport. We also observed that inasmuch as both the Governments of Canada and Québec are presently subsidizing certain air services in this area, there might be a need to evaluate the economic efficiency of these expenditures of public funds.

With respect to air services in Nouveau Québec and the Eastern Arctic Islands, we heard both words of praise and anger, with the people of the latter region sharing a number of similar concerns to those enunciated in the Basse Côte Nord-Labrador area. Many residents spoke favourably of the services which the air carriers offer and noted that First Air, in particular, has increased the frequency of service to the communities on Baffin Island. We heard evidence that while First Air makes a conscious effort to relate its schedule to that of Nordair, the principal north/south carrier in this area, thereby ensuring some ease of interlining, it appears that Nordair, Air Inuit and Air Creebec have further refining to do with respect to co-ordinating their timetables re: scheduled arrivals and departures. There are, of course, concerns relating to the postal service in this region--and in this regard we became acquainted with the extensive role of Canada Post in distributing foodstuffs throughout northern and remote areas--as well as the underdeveloped condition of many airports, the frequency of service, ruined or lost perishables, and possible instances of discrimination against Native Peoples.

This latter issue may be closely associated with, what we term, a visible communications problem between a number of the air carriers and Canada's Native Peoples throughout all of the northern and remote areas. There are but limited numbers of employees with many of the air carriers who can effectively communicate in the Native Peoples' languages. At the same time, written and oral communications in these same languages using radio, television and/or newspapers appear to us to be minimal in most cases. It is therefore quite obvious why residents of northern and remote areas are unaware of the scheduling and fare opportunities of their local air carrier(s) and why unilingual Native People are reticent and often distressed when required to travel by air away from their communities.

This failure to identify and to respond in a number of ways to the needs of Canada's Native Peoples and other residents of northern and remote areas is especially apparent in the fact that in the Keewatin there is only a very limited range of low-priced air fare products. The failure to serve many of these potential sources of demand cannot but be reflected in the revenue statistics, and though it is beyond our control to require improvements in this area, we definitely share the unhappiness of the residents with this current state of affairs. We also empathize with the concerns expressed by both air carriers and consumers in regard to the need for new, cost-efficient equipment which all identified as a source of potential improvement in the quality of air services. As well, we again learned of problems with which we were already now thoroughly familiar relating to frequency of service, the carriage of fresh produce, and the need for certain improvements to various airports in the area.

These concerns can be contrasted with those expressed by the residents of northern Manitoba and northern Ontario who stressed the need for ensuring that there be no deterioration in the present level and quality* of air service as a consequence of changes to air policy elsewhere in Canada. This concern that the existing availability and frequency of jet service be maintained was also shared by the larger communities of the Mackenzie River Basin (Fort Smith, Hay River, Inuvik). On the other hand, many of the smaller settlements, such as Lac la Martre, Rae-Edzo and Fort Providence would be more than pleased just to have an airport (or at least one which is usable year-round) and thereby some access to the amenities of life which other Canadians enjoy, such as a mail service.

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*A major influence on the level and quality of air service throughout parts of northern Ontario is the existence of norOntair; the Government of Ontario establishes the criteria for its operation which are quite rigorous (see Appendix A).

While both the Government and residents of Yukon Territory were satisfied with the efforts of Trans North Turbo Ltd. (Trans North Air) to provide a reasonable and reliable service throughout the Territory (albeit with older aircraft some of which subsequently have been replaced), at the same time Yukon and northern British Columbia consumers expressed a degree of frustration with the north/south services where problems relating to delays in flights, diversion of flights, difficulties in making connections, confirmation of reservations, and reduced winter frequencies are said to make air travel something other than "a picnic in the sky".

Above all, however, there is a single unifying theme which is shared and voiced by consumers and carriers alike in connection with air services everywhere throughout northern and remote areas--the high cost of travel. This over-riding consideration and the relationship of the many other identified regional issues to it form the focus of our analysis and recommendations.

Chapter 2

# ADEQUACY AND QUALITY OF AIR SERVICES: SOME SOCIAL AND ECONOMIC CONSIDERATIONS

## 2.0 Introduction

Within the context of examining the adequacy and quality of existing air services in northern and remote areas, we sought and received the views of the many participants at the public meetings as to how these services might be better provided in the future. Much of the discussion focused on the relevance of the new domestic air policy for southern Canada, which had been recently announced, to the air services which the residents of northern and remote areas might subsequently receive.

## 2.1 Vox Populi

As might be expected, there was a strong desire expressed to share in the perceived benefits of the new policy --Canadians living north of the line of demarcation drawn by the policy were most concerned that they not be treated as second class citizens and that they too be afforded the opportunities to cheaper and better air services. At the same time, a certain sense that many of the air travel markets in northern and remote areas were low density routes with little or no means of alternative transportation often led to comparisons with the sometimes less than satisfactory experiences of certain small communities under airline deregulation in the United States and to an expectation that some form of continued regulation would be necessary for many of the markets. As a consequence, many participants expressed the view that it is the responsibility of the Commission and other government agencies--both federal and provincial/territorial--to ensure that residents in the "regulated" zone (1) were not exploited or otherwise unduly disserviced by air carriers operating in both the regulated and more competitive zones, and (2) were given ready access to the advantages which a more pro-competitive regime might confer.

### 2.1.1 Provincial/Territorial/Municipal Governments and Consumers

As is befitting a country as large and diverse as Canada, the preceding generalizations were not subscribed to by all participants, perhaps reflecting the variety of operating milieus and the special requirements which each one elicited. With respect to the submissions of the provincial/territorial governments, the official opinions would

allow for increased competition where feasible (the Government of Newfoundland and Labrador as related to certain, but not all, air services in Labrador) as well as for continued regulation allowing for more competition only when evidenced by public convenience and necessity (the Governments of Manitoba, Yukon Territory and the Northwest Territories). In the context of uncertainty surrounding the eventual outcome of the lessening of regulation in southern Canada and its possible impact on air services to small communities, the Government of Manitoba, in a position which was supported by representatives of a number of the communities affected, requested that the line of demarcation be redrawn from its proposed 55°N intercept on the Manitoba-Saskatchewan border to 53°N in order that certain formerly excluded communities on the Canadian Shield in Manitoba be included within what the provincial government assumed would be the zone of continued regulation.

While the Government of the Northwest Territories advocated continued regulation of northern and remote area air services, it did acknowledge that certain communities and/or individuals within its boundaries were doubtlessly of another mind, a reflection of local aspirations and conditions. This was apparent in the presentation to us by the elected representative of Frobisher Bay to the Territorial Assembly, Mr. D. Patterson, who suggested that some form of limited competition might be very relevant to this particular market. The desire to "do something about the high cost of transportation in the North" was an incentive to incite some qualified support for a pro-competitive attitude from many municipal authorities and citizens throughout all the northern and remote areas we visited although this was oftentimes tempered by fears about its effects on existing services. These expressions of concern were especially evident when the community was, for the most part, very satisfied* with the air service it received (for example, Dawson City re: Trans North Air, Fort Smith and The Pas re: Pacific Western Airlines (PWA), and Baffin Island communities re: First Air). Because of these concerns, we received many valuable suggestions as to how the advantages attributed to competition might be achieved in these thin and fragile markets without endangering the present level of service.

In addition to pricing considerations, where there were strong "local" opinions expressed as to deficiencies in existing air services**, the major complaints addressed the following issues: (1) the use of old aircraft such as

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*The high cost of travel was the usual exception mentioned.

**The complaints with respect to airport facilities are addressed elsewhere in this Report (see Chapter 6).

the DC-3 which, although reliable, is slow and expensive to operate (for example, the Kitikmeot region air services of Northwest Territorial Airways (NWT Air) and the Yukon air services of Trans North Air); (2) the assorted problems relating to scheduling, reservations, and amenities (for example, the failure of EPA-Quebecair to co-ordinate schedule timetables at Wabush to provide a through service with Montréal; the sometimes difficulties of CP Air, Calm Air, Austin Airways and other carriers in adhering to their published schedules/ routings; the complete lack of computer reservation facilities for Calm Air's extensive operations in northern Manitoba and the Keewatin; the unwillingness or inability of most of the air carriers in these areas to provide in-flight services comparable to that offered in southern Canada); (3) the absence of services in the appropriate language of the Native Peoples in an air carrier's area of operation (for example, Nordair in Nouveau Québec and Baffin Island, Calm Air in the Keewatin, NWT Air in the Kitikmeot region); and, (4) the lack of employment opportunities for Native Peoples with the airlines providing service to them (for example, the carriers servicing the Mackenzie River Basin, Nordair in Nouveau Québec and Baffin Island).

### 2.1.2 The Air Carriers

All unit toll operators in these northern and remote areas who appeared before us were strongly opposed to U.S. style deregulation, i.e., open entry and exit, citing the low density routes (thin and fragile markets with interdependent services) as justification for their position. Many air carriers, however, were responsive to suggestions of responsible competition in mature markets*--between unit toll carriers or between unit toll and charter carriers--if the ATC could be satisfied that the same was warranted by demonstration of public convenience and necessity. However, the preceding sentiments were completely rejected by at least one charter operator, North Cariboo Flying Service Ltd., as not sufficiently promoting the element of competition**.

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*R. Engle, President, NWT Air, suggested the following criteria be used in determining whether certain markets are mature enough to support competition:

- availability of alternative modes of surface transportation;
- frequency of service comparable to that in southern markets, i.e., at least twice daily weekday frequencies;
- type of aircraft on existing services, i.e., markets served by jet aircraft; and,
- innovation (new types of services).

**As well, Rog-Air Limited seemed somewhat amenible to North Cariboo's position.

As to other factors which influence the level of competition in these markets, both unit toll and charter air carriers recommended the Air Transport Committee streamline the present regulatory process and lift certain operating restrictions on licences to reduce their administrative burden and to afford them the opportunity to compete (for example, faster application processing and removal of restrictions specifying the number or types of aircraft operated within a particular weight group).

There was, however, less unanimity of opinion with respect to the need for and effectiveness of such regulatory restrictions as route protection, positioning charges as a means of base protection, and aircraft weight group classifications. These latter two items are discussed further in Chapter 4. As to route protection, the main supporters for its retention were the unit toll carriers who portrayed it as a most effective means of ensuring year-round operations in their thin markets because it inhibits seasonal services which otherwise would "cream-skim" during peak periods and then withdraw in the off-peak. At the same time, many charter carriers (and consumers) saw unqualified route protection for unit toll carriers in these northern and remote areas as a definite barrier to competition and to lower prices--in effect a guaranteed monopoly which in the absence of regulation of fare increases could mean value of service pricing and exploitation of consumer surplus.

## 2.2 New Directions

Although it is apparent that we were recipient of a diversity of opinion, we had the good fortune to be favoured with many positive suggestions from government representatives, consumers and carriers. In making our recommendations to improve the quality of air services in northern and remote areas we have drawn heavily on these invaluable inputs.

### 2.2.1 Subsidy

An "obvious" solution to reduce the cost and improve the quality of air services to consumers is direct subsidy payments to air carriers to cover the difference between incurred costs and generated revenues (assuming fares were to be reduced). Both the Governments of Newfoundland and Labrador (for air services along the Labrador coast) and Québec (for air services between Sept-Îles and Blanc-Sablon) presently directly subsidize selected air carriers for services provided in their areas* and they, as well as the Governments

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*The Government of Canada also pays Quebecair a subsidy for this same service (Sept-Îles to Blanc-Sablon) and provides another subsidy to EPA for certain services provided in the Atlantic region.

of the Northwest Territories and Manitoba, urged the federal government to commit itself to such an on-going program for local service air carriers. As well, some private citizens also advocated institution of a direct subsidy program for air arguing equity considerations and drawing parallels with various subsidy-type programs currently given to other modes (CN Marine, Northern Transportation Company Limited (NTCL), and highway construction throughout all of Canada).

Nevertheless, other government officials and consumers as well as most air carriers presently in operation shared a lack of enthusiasm for any proposal involving a program of direct subsidy for services performed. We sensed a desire in these participants to rely upon the strength and ability of the private sector to provide air services whenever possible. This was highlighted by Mr. R. Piché, MPP for the Ontario riding of Cochrane North, who described the policy of the Government of Ontario with respect to its operation of the norOntair program in co-operation with the private sector. We have concluded that where there is a need to improve air services and to reduce costs to the consumer, any possible future federal government involvement should be tailored to assisting the private sector (and in these areas it usually implies small business) to meet the needs of the particular marketplace in a manner which optimizes the latter's ability to draw upon managerial skills and talents to meet that demand. In this regard, it is noted that many of the existing direct subsidy programs for air services currently in effect throughout Canada appear to offer little incentive to economically efficient operations, and while it is conceivable that an efficient and effective direct subsidy program could be designed, certain experiences (such as the Essential Air Service program in the United States*) demonstrate the difficulty and complexity of even attempting to do so.

In view of these recognized difficulties with subsidy programs, **we recommend that the Government, with the assistance of the Air Transport Committee, undertake a review of the need for the subsidies currently being paid to Quebecair and EPA** (especially since the former carrier is simultaneously receiving a subsidy from the Government of Québec for the same Sept-Îles to Blanc-Sablon service). If these subsidies are still deemed to be in the public interest, then a cost-effective, incentive-based subsidy program should be designed in co-operation with the appropriate provincial governments so as to ensure that the air services to these areas meet

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*See Appendix B for a description of the Essential Air Service program.

the needs of the citizens therein and are provided in an economically efficient manner.

After much careful reflection, **we do not recommend that the Government of Canada design and implement a direct subsidy program in connection with air services in northern and remote areas.** We have been persuaded by the many submissions we received that there are simpler, more direct and more effective means within the present powers of the Government of Canada and the provinces/territories to improve air services and reduce costs and fares in co-operation with the private sector.

As the Inquiry progressed, we heard extensive and detailed testimony as to the impact on air fares and air services of: the type of equipment operated (for example, 40-year old DC-3s), the cost of new aircraft (for example, $7 million for a Canadian built Dash-7 and 8), the deficiencies in runways (for example, the 3800 foot air strip at Spence Bay which prevents NWT Air in the Kitikmeot region from using its Lockheed Electra aircraft with its lower operating costs and confines the carrier to its high cost DC-3 equipment) and/or navigation aids and associated infrastructure (at countless communities), and the incidence of numerous taxes, fees and leases imposed on the carriers by various levels of government and their agencies. We have concluded that there is a role for government to play in alleviating the economic stresses associated with these factors. The impact of a proposed reduction in various government imposed taxes and fees on air fares* and the need to improve airport facilities and install navigation aids** are addressed later in the Report; the issue is therefore the replacement of existing out-dated, high operating cost equipment.

### 2.2.2 Capital Asset Acquisition Program

In the context of their evidence, many air carriers illustrated the relationship between their high operating costs (and subsequent fares) and the old equipment they used. At the same time, it was apparent that the limited financial resources of certain carriers would not enable them to acquire the appropriate aircraft to up-grade existing services and reduce operating costs. Consequently, we are persuaded after looking at the operations of norOntair*** that a re-equiping process for local service air carriers operating in northern

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*See Chapter 3.

**See Chapter 6.

***See Appendix A for a description of the Government of Ontario's norOntair program.

and remote areas involving some comparable form of Government of Canada capital asset acquisition assistance program (which would include specified performance standard criteria and associated financial penalties) would be a definite incentive toward stimulating the development of air services, improving the quality of existing air services and reducing the cost to the consumer, while also having the possible advantage of developing the needed technology in Canada and providing manufacturing jobs for Canadians. **We recommend that the Government of Canada work with private enterprise to reduce the short-term risk associated with the provision of air services in northern and remote areas by designing and implementing a much-needed, front-loaded, venture capital program to enable air carriers to acquire appropriate aircraft. It is suggested that the program should include:**

**either (1) interest free loans (at least for an initial three to five years) associated with a reasonable pay-back period to enable local service air carriers to purchase appropriate aircraft (preferably Canadian designed and built) and to operate them in northern and remote areas;**
**or (2) nominal-cost leases of appropriate Canadian designed and built aircraft (for example, the Dash-8 possibly reconfigured for a passenger/freight combination) to local service air carriers for operations in northern and remote areas, with such leases having specified air carrier commitments with respect to maintenance and the like as well as a specified management incentive clause including financial penalties to encourage optimum performance in terms of a reliable, high quality air service*.**

Should this capital asset acquisition program be implemented, the ATC could ensure, through enforcement of the carrier's contract agreement with the Government of Canada under this program, that all such assistance to air carriers is reflected in the subsequent fares and cargo tariffs charged to consumers in northern and remote areas.

### 2.2.3 Scheduling, Reservations Systems and In-flight Amenities

Within the context of operating any new equipment the local service air carriers might acquire under such a program as well as continued operation of any existing aircraft, it is imperative that air carrier management assume full responsibility for the services tendered. As it relates to northern and remote area services, this, in effect, means operating in a manner which is simultaneously economically efficient and attractive to the consumer. As the on-going

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*See Exhibit A1.2 in Appendix A for an example of the norOntair incentive measures and penalty clauses developed in connection with the new Dash-8 program.

development of "feeder" type service relationships between certain local service and major air carriers evidences, there are benefits to be realized both by the carriers involved and by the travelling public. While these types of relationships cannot be compelled, **we encourage the air carriers in northern and remote areas to institute both a realistic and reliable schedule of services and to co-ordinate it with that of the major carriers to effectively ensure a viable through service.** Such developments also usually mean access to the computer reservation systems* of the larger carriers at what should be a marginal cost fee. Where we heard evidence of consumer dissatisfaction with these service aspects of any particular carrier, it is hoped that the experience and success of other local service air carriers in utilizing modern technology will be an incentive to adopt it; for the air carrier so doing, it will also open up the opportunities to develop an operational discount fare program which may, if effectively marketed, lead to increased demand and revenues. A similar conclusion might also be drawn with respect to enhanced in-flight services, where feasible, on most of the air carriers--large and small--operating in these areas.

### 2.2.4 Marketing of Air Services

In terms of additional improvements to the marketing of their product, air carriers in northern and remote areas must develop a further awareness of their clientele and their personal requirements. If it were not for the obvious achievements of such carriers as First Air, Air Creebec and Air Inuit (and to a certain extent NWT Air and Austin Airways) in this regard, we might have concluded that the fact that nearly all scheduled air services have been a virtual monopoly has led to a lack of concern with certain travelling needs of Canada's Native Peoples who constitute the majority of the population in many of these areas. We cannot comprehend why many air carriers who bemoaned the limited market sizes in northern and remote areas: (1) have made little effort to advertise their fare programs--especially their discount fares--in both the written and spoken media in the language of these Peoples; (2) have not made schedules and other relevant flight-related materials (such as "safety cards" when appropriate) readily accessible in these languages; and, (3) have not offered telephone reservations, airport check-in and in-flight services, where possible and warranted, in the appropriate Native People's language.

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*Where possible, these reservation facilities should also be adapted for cargo planning and control purposes as well as for co-ordinating the required mix of passenger and cargo space on combi-aircraft. (See Chapter 3 where computer reservation systems are also discussed.)

**2.2.4.1 The Media**

As any business knows, a growth in demand is founded on consumer knowledge of what is available in the marketplace. In these areas, the spoken media--often CBC Northern Services--could be a most effective means of communication and dissemination of information; from comments which we heard, it would seem the public network has had little time to devote (beyond a mere single mention) to such local concerns as cheaper air fares or improved schedules, perhaps considering these as publicity rather than an essential service to its audience. This behaviour and attitude is unfortunate and doubtlessly contributes to the general lack of consumer awareness with respect to such matters as appeared common throughout the northern and remote areas*. However, the blame for this state of uninformedness cannot be wholly attributed to the failure of the public media to rise to the occasion. Therefore, **we encourage the air carriers providing service in northern and remote areas to avail themselves of the existing media outlets--the public television and radio network and locally operated stations as well as regional and local newspapers --in addition to local community groups to publicize their fares, cargo rates and schedules as widely as possible in the local Native People's language.** At the same time, **we wish to recommend that CBC Northern Services re-examine its policy with respect to items of concern to its local listeners --such as available air carrier discount fares and schedules in the areas--and to make itself much more accessible to what is in effect a public service announcement.**

**2.2.4.2 Consumer Services**

The marketing of services entails more than just an effective use of the media; there is a concomitant need to address other aspects of passenger travel requirement. In this regard, we were informed that many Native Peoples experience difficulties in making travel plans and subsequently in using the service because of the almost universal absence of verbal communication and written material in their languages. It is our opinion that there is a definite demand for travel-related information in the Native Peoples' languages; therefore, **we encourage the air carriers to assist the Native Peoples in making travel arrangements by providing, wherever feasible, telephone reservation services and related schedule information as well as airport check-in assistance and in-flight service announcements in the appropriate Native People's language.** Within this context, and **in the interest of safety**

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*This lack of awareness by consumers in northern and remote areas is in marked contrast to the "market knowledge" of many air travellers in southern Canada.

**for the travelling public, we recommend that the air carriers, in conjunction with Aviation Regulation (Canadian Air Transportation Administration), commit themselves to ensuring that in-flight emergency information, where applicable, be readily available on the aircraft in the appropriate Native People's language and that whenever possible the carriers provide other company-oriented written material in these languages.**

### 2.2.4.3 Enhanced Employment Opportunities for Native Peoples

While increased use of the Native Peoples' languages should improve the quality of the air services they receive, there is also a need to increase their involvement in providing these services. A number of air carriers spoke to us of the employment opportunities which they have for Native Peoples; unfortunately, such programs are not available with every carrier operating throughout the northern and remote areas. We heard representations from an air carrier as to the difficulties in so doing because of limitations inherent in existing labour agreements. Upon further investigation, we found certain limited evidence to accord with such claims (for example, "bumping rights") but were not convinced that these particular clauses were insurmountable obstacles preventing the carriers from increasing the representation of Native Peoples in their workforce*. However, inasmuch as we lack all the precise data, there may be some justification in the suggestion that there are at present limited numbers of Native Peoples with the required skills preventing the air carriers from augmenting their presence and thereby offering more services in the Native Peoples' languages. If such a condition indeed exists, it need only be a short-term phenomenon. **From our perspective, an obvious solution to enhance employment opportunities for Native Peoples is the provision of various relevant training programs--including on-the-job training--funded by Employment and Immigration Canada. In addition, where there is an identified requirement for a more formalized training program, we recommend that the Governments of Yukon and the Northwest Territories and Indian and Northern Affairs Canada together with provincial educational authorities consider jointly sponsoring such**

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*We note that NWT Air, First Air, Austin Airways, Air Creebec and Air Inuit all employ Native Peoples. We also note that the employment of current residents of northern and remote areas (such as the Native Peoples) affords southern based air carriers an opportunity for cost saving inasmuch as such individuals do not have to be relocated with the attendant moving expenses and all the various allowances.

a program at an educational institution like Thebacha College in Fort Smith, NWT. Together, these programs would lead to: (1) increased employment of the Native Peoples in the airline industry; (2) increased accessibility by the Native Peoples to various services in their languages (for example, telephone reservations, check-in and in-flight services); and (3) increased active involvement of the Native Peoples in providing and meeting the air service requirements of their communities.

### 2.2.5 The Proposed State of Competition

The preceding recommendations constitute a portion of the social and economic solutions whose advancement and realization will greatly enhance a multitude of aspects related to the adequacy and quality of air services in northern and remote areas. As has been identified, there are other concerns which must also be addressed such as pricing, airport facilities and the like, and competition between unit toll carriers and between unit toll and charter carriers in these areas. Pricing practices, airport facilities' development and certain aspects of charter operations are all dealt with individually elsewhere in this Report; the issue is therefore the proposed state of competition between air carriers providing services in northern and remote areas.

#### 2.2.5.1 The Line of Demarcation

The line of demarcation as proposed in the new domestic air transport policy is a focal point from which to begin any discussion of competition for if it were to be eliminated, as some have proposed, the procedures and practices to the south of this line could be applied anywhere in Canada. While there is an attractiveness to this simple approach, we are not convinced of its viability--a sentiment which we share with many provincial/territorial governments, remote area residents and air carriers. As a general observation, the low density and seasonal nature of most of the intra northern and remote area routes is an undeniable fact of life; when this is combined with the essential nature of most air services--they are the <u>only</u> year-round access many of these communities have to the rest of Canada*--it is difficult, if not impossible, to envision placing the residents in these communities at risk of service interruptions through potentially destructive competitive practices which no carrier would win and which could result in untold losses

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*As well, we observe from the comments we received in the eastern Kitikmeot region that the state of telecommunications in the region makes air services the only realistic means of continued family interaction as well as commercial relationships among these particular communities.

for all concerned. As a consequence, **we recommend the maintenance of the proposed line of demarcation separating the regulatory approach in northern and remote areas from that in southern Canada; there should, however, be at least one alteration: the intercept on the Manitoba-Saskatchewan border should be at 53°N rather than 55°N to include the communities lying on the Canadian Shield in Manitoba, thereby ensuring some level of protection for air services to the communities above it***. Having come to this conclusion, the next question to be addressed concerns the nature of the competition to be allowed with respect to air services available across this line from southern Canada and above this line throughout the northern and remote areas.

**2.2.5.2 Intra Northern and Remote Area Markets**

As has already been remarked, intra northern and remote area markets are thin and certainly far from robust. Until such times as traffic densities thereon increase** and other relevant considerations are realized, **we recommend that all applications for new year-round unit toll operations <u>within</u> these areas continue to be determined on the basis of present and future public convenience and necessity.** Furthermore, air carriers presently operating unit toll air services within northern and remote areas could continue to enjoy a limited form of route protection from the operations of a non-scheduled (charter) carrier. However, as a means of encouraging reasonable pricing practices, **we recommend that any unit toll carrier with route protection be required to demonstrate to the ATC the impact on its operations which a waiver might occasion. In making its judgement, we recommend that the ATC place increased emphasis on the benefits of competition.**

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*On 9 September 1984, the Air Transport Committee proposed an amendment to the Air Carrier Regulations to amend the line of demarcation to accord with this recommendation. As well, on 22 November 1984, at the request of the Government of Saskatchewan, the ATC has proposed the line of demarcation be drawn as a diagonal from the 53°N intercept on the Manitoba/Saskatchewan border to the 55°N intercept on the Saskatchewan/Alberta border. Thereafter to the Pacific Ocean, the line is to continue at 55°N.

**This could be occasioned perhaps, in part, in response to the service patterns implemented through the utilization of new aircraft acquired with federal government assistance and to fares substantially reduced from their present levels because of tax, fee and lease concessions from all levels of government (see Chapter 3).

**2.2.5.3 North/South Markets**

With respect to the provision of unit toll air services between northern and remote areas and southern Canada (i.e., points to the south of the revised line of demarcation), it is observed that many of these services are operated on a daily basis by major air carriers using jet equipment. It is not surprising to find substantial traffic volumes of passengers and/or cargo to many of the northern and remote communities recipient of such services (a noteworthy contrast with present intra northern and remote area markets). While not advocating an "open skies" policy with respect to these services and with due concern for the maintenance of a high quality, year-round service, **we are convinced that it is appropriate for certain northern and remote area communities (Table 2.1) to receive a limited amount of additional unit toll air service to/from southern Canada by another carrier and to extend thereby the benefits of a competitive marketplace. In making such a recommendation, we suggest that all applications for such new, year-round, unit toll air services by another carrier to/from these points be licensed by the ATC on the basis of present and future public convenience and necessity but which also places an increased emphasis on the benefits of competition.** Initially, any increase in direct, head-to-head competition instituted under this recommendation might involve only a few carriers, but **it is intended that air service to these communities could be authorized to/from any point in southern Canada.** At present, Whitehorse, Sept-Îles, and Wabush* have service by two major southern unit toll carriers and, on the basis of these examples, it is our opinion that the proposed increased access to alternative carrier unit toll operations (where tenable) will be an incentive to the maintenance of cost-efficient, reasonably priced operations for these northern and remote area centres. At the same time and in the context of this recommendation, we note that the ATC, in considering the application for additional unit toll services to these communities, might wish to afford route protection from non-scheduled (charter) operations to the unit toll carriers it may license until such time as the competitive aspects of these services have developed.

**Where we have not suggested that a northern and remote area community presently recipient of direct north/south air services be included on this list of possible markets for increased unit toll competition, we recommend that the**

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*As well, both CP Air and PWA are licensed to serve Dawson Creek, although CP Air generally operates this service through the neighbouring community of Fort St. John.

Table 2.1

**NORTHERN AND REMOTE AREA COMMUNITIES WHICH MIGHT BENEFIT FROM ADDITIONAL YEAR-ROUND UNIT TOLL AIR SERVICES TO/FROM POINTS IN SOUTHERN CANADA BY (AN) ALTERNATIVE AIR CARRIER(S)***

| | |
|---|---|
| Dawson Creek, B.C. | Inuvik, N.W.T. |
| Fort McMurray, Alta. | Sept-Îles, P.Q. |
| Fort St. John, B.C. | Thompson, Man. |
| Frobisher Bay, N.W.T. | Wabush, Nfld. & Lab. |
| Goose Bay, Nfld. & Lab. | Whitehorse, Yk. |
| Grande Prairie, Alta. | Yellowknife, N.W.T. |

*Includes those communities like Sept-Îles, Wabush and Whitehorse which are presently served by two major southern unit toll carriers.

**suggested approach to continued regulation of intra northern and remote area unit toll air services be adopted*.** Nevertheless, we realize that our recommendation for these remaining north/south unit toll services as well as for intra northern and remote area unit toll service are "temporal". implying that the recommendations are in our judgement appropriate to the existing operating environment. However, **in our recommendations with respect to the on-going monitoring role of the Commission concerning air services in northern and remote areas**, we charge those responsible for this activity to use their reasoned judgement to suggest extension of this particular more pro-competitive perspective for new, additional, year-round unit toll air services to other markets in northern and remote areas whenever it is deemed feasible. In undertaking this monitoring function, these same individuals should also continue to review, and where required, to recommend changes to the level and nature of both unit toll as well as charter air services provided in northern and remote areas.

### 2.2.5.4 "Use It or Lose It"

Having suggested the possibility of additional unit toll air services, we are mindful of the fact that a newly licensed applicant or incumbent air carrier may not effectively make use of its licence. In such situations, **we recommend that a carrier be asked to "show cause" why its licence should not be suspended or cancelled and another carrier awarded the licence if, in the Committee's judgement, the unit toll licensee has failed to maintain a reasonable year-round level of service to a community.** In particular, where a carrier has not operated a service for a maximum of 30 days unless for good reason, the ATC should expeditiously consider all applications to replace this "abandoned" service.

### 2.2.5.5 Service Withdrawals

Where a licensed air carrier gives notice that it intends to withdraw from a market in these northern and remote areas, the ATC and the communities affected should be so advised by the carrier at least 60 days in advance. Assuming there is a continued demand for the service, **we recommend that the Air Transport Committee should widely advertise the opportunity to provide a service from which a licensed carrier wishes to withdraw and, if need be** (following the example of the Civil Aeronautics Board in the United States with respect to service withdrawals under its Essential Air Service program), **actively solicit applications to provide the service.** It goes without saying that we assume, given the nature of many of these markets, all such applications will be acted upon by the ATC in a timely manner.

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*See Section 2.2.5.2.

**See Chapter 5.

**2.2.5.6 Licensing Application Procedures**

With due reference to the preceding recommendations, **we concur with suggestions we received from the air carriers that the ATC continue to streamline the present licensing application procedures and to expeditiously consider all such applications.** These same suggestions were received by the Committee in the context of a recent hearing on domestic charters and air fare issues in southern Canada and were reiterated in the policy statement of the then Minister of Transport. **The Committee* has since made public its proposals to expedite licensing application procedures and we recommend that these be subject to periodic review and change when required.**

**2.2.5.7 Restrictions on Licences**

We received requests from some air carriers that the Committee review the various restrictions (for example, the number or types of aircraft operated within a particular weight group, prohibition from carrying traffic between two points) imposed upon the existing licences for services in northern and remote areas. Where any restrictions are deemed inappropriate by the carrier to the need for a more competitive operating environment, procedures could be initiated to remove the same. As comparable concerns were expressed by the then Minister of Transport as well as by air carriers in connection with services in southern Canada, **we recommend that the ATC accept requests identifying specific concerns with respect to restrictions on licences from air carriers operating in northern and remote areas and review the need for such restrictions within the context of a more competitive operating environment.**

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*"Report of the Canadian Transport Commission to the Minister of Transport on the Matter to Speed Up and Simplify the Regulatory Process for ATC Licence Applications and Other Related Issues", 16 August 1984.

Chapter 3

# PRICING/COST CONSIDERATIONS (SCHEDULED CARRIERS)

## 3.0 Introduction

As the preceding Chapters have demonstrated, air services in northern and remote areas in Canada are unique in their nature. While there are some very limited intra-regional flows, the movement of traffic is primarily north/south, moving people and goods into and out of the northern and remote areas where the communities are, for the most part, sparsely populated and linked to southern Canada mainly through routes operated by CP Air and the Regional carriers. Local service air carriers also play an important role in transportation in these areas linking smaller communities with major centres; as well, some local service carriers such as Northwest Territorial Airways and First Air provide some services linking these areas with southern Canada.

## 3.1 The Structure of Air Fares

Both scheduled and charter air carriers play a vital role in the transportation services required between not only major centres but for all communities. Within this operating environment, both the major carriers and a large number of local service air carriers provide a multitude of services. Of the major Canadian airlines, CP Air provides scheduled service linking northern B.C., Alberta and Yukon to southern Canada, while PWA provides services linking Yukon, northern Alberta and the western Arctic region (the Mackenzie River Basin and a few points in the Kitikmeot region and High Arctic) to the south as well as services throughout northern Manitoba. Nordair provides scheduled services linking the Eastern Arctic and parts of Nouveau Québec with Ontario and Québec, while Quebecair serves other parts of Nouveau Québec/Labrador and the Basse Côte Nord of the St. Lawrence. EPA provides scheduled service linking Labrador with Newfoundland. The local service air carriers are much smaller in size and tend to link small groups of communities with larger distribution centres in the region, although some also serve southern communities and provide a link between these communities and the northern and remote areas they serve.

The characteristics of these carriers and the areas they serve differ significantly; nevertheless, some of the problems the carriers and the general public face, such as the high costs associated with all facets of air services, are consistent throughout the areas.

In the evidence presented at each of the five phases of the Inquiry, there was considerable discussion of the

structure and the level of air fares* overall. The focus was upon the high level of fares but discussion was not just centered around complaints; the factors which contribute to the high cost of air travel and practical ways of lowering transportation costs were also examined by many participants. The discussion generated has been extremely useful to us in analysing the structure of air fares in northern and remote areas and in recommending various changes which should lead to the improvement of services.

### 3.1.1 The Major Air Carriers: CP Air and the Regionals

As noted previously, the major scheduled airlines as well as a large number of smaller local service air carriers provide service in northern and remote areas in Canada. The major carriers offer primarily jet service** linking the larger centres in these areas to major distribution centres in southern Canada.

The structure of air fares of these carriers' northern and remote area services is, however, much different than that of the southern services they provide. In the south, the major carriers generally follow an economy fare formula set by Air Canada; exceptions are usually limited to points where carriers do not face direct competition from Air Canada. This fare formula is cost-related, although a number of other influences are also taken into consideration. The fare formula is based on a terminal charge, a set amount per passenger, plus a line-haul component, a rate per mile flown. Not only economy fares but most other fares in southern Canada are based, to some extent, on this formula inasmuch as discount fares, as an example, are typically quoted as a percentage discount off the economy fare.

On the routes to/from northern and remote areas served by the major scheduled carriers, however, the carriers do not follow the Air Canada fare formula, recognizing the unique characteristics of these markets and pricing accordingly. In fact, only PWA applies a specific formula***, one

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*More specifically, the discussion concerned scheduled air fares; as charter prices, historically, are reflective of scheduled prices it is also relevant to charter services. A more detailed discussion of charter issues, however, is provided in Chapter 4.

**Nordair, Quebecair and EPA also operate turbo-prop equipment. It is noted that Air Canada, while primarily a southern-based carrier, does provide jet service to Sept-Îles.

***This formula applies on all points in PWA's network with the exception of Calgary-Edmonton and points with which PWA competes directly with the major national carriers.

which varies somewhat from the Air Canada formula. The other carriers do not rely upon a formula and fares are more market-specific, tending, as in the case of Nordair, to have developed, more or less, historically. Despite these differences, each carrier's fares to/from northern and remote areas are consistently above fares in southern Canada, reflecting, to a degree, the difference in the cost of operation between the two areas.

Of importance, however, is whether or not fares to/from northern and remote areas bear the full cost of the difference between these and southern operations. As noted by PWA and Nordair, many joint and common costs are not separable and in these circumstances system average costs have been used to set fares in northern and remote areas. Because of this practice it is conceivable that fares to/from these areas, historically, may have been somewhat less than the actual costs incurred. In this regard, it is interesting to note that some of the major carriers' economy fares did not vary across their system; nevertheless, we heard substantial complaints regarding the perceived higher level of air fares applicable to services in northern and remote areas.

As anyone familiar with air services would observe, the airlines operate in markets exhibiting substantially different characteristics from those in southern Canada. On their routes to/from northern and remote areas, for example, air carriers face very little competition from other carriers whereas on many of the other domestic routes there is direct competition from other major carriers as well as from alternative modes of transport. Pricing philosophies with respect to northern and remote area services are, no doubt, to an extent reflective of this situation. This has been a concern voiced by many public interest witnesses throughout these areas, and indeed becomes particularly relevant given the more pro-competitive policy in effect for air services in southern Canada. Many residents expressed their concern to us that the major air carriers with north/south as well as southern services will simply raise fares on their northern and remote area operations to cover shortfalls in revenues as a result of the effects of increased competition in the southern markets. **We recommend that increases in the level of fares to/from northern and remote areas served by the major carriers continue to be subject to close scrutiny by the Air Transport Committee and that all applications for fare increases continue to be properly justified.**

In conjunction with this, the role of competition as an effective means for limiting fare increases should be enhanced where possible, perhaps by licensing services by other carriers, for example local service air carriers, on some of the north/south routes served by the major carriers*.

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*This recommendation is detailed in Chapter 2, Section 2.2.5.3.

### 3.1.2 The Local Service Air Carriers

The local service air carriers operating within northern and remote areas are not simply supplemental carriers. Although some also operate routes in southern Canada between smaller population centres as well as a few north/south services, for the most part they are strictly intra-regional carriers using small, non-jet aircraft up to the size of an HS-748 or Lockheed Electra. While the equipment is more costly to operate per seat, the infrastructure and range of services these carriers provide is much more limited than the major carriers. As a consequence their cost structure is much different from that of a larger, southern market-oriented carrier. In addition, each carrier operates under fairly unique and obviously different circumstances influenced by the geographical area it operates in and the needs of the people it serves. Moreover, the air services are often virtual monopolies due to the limited size and fragility of the markets.

As a reflection of the type of service these local service air carriers provide, it is, therefore, not surprising that there is not any semblance of a uniform pricing system among them. For the most part, fares of individual carriers have developed historically, although a number of these carriers (for example, Calm Air, First Air, Trans North Air, Austin Airways, Air Creebec and Air Inuit) have constructed fare formulas which they follow to varying degrees. The one common feature, reflecting the cost structure of these carriers, is the relative difference in the terminal/line-haul components' proportions of fares compared to the major Canadian airlines; for the local service air carriers the line-haul cost is relatively higher and the terminal charge lower, reflecting the different cost structure inherent in these types of operations.

While the fare structures of the local service air carriers are mostly reflective of the networks they operate, these carriers consider fully allocated costs in setting their fares. Nevertheless, within each carrier's network there is some variation. Even some of the carriers who claimed to follow a fare formula admitted that, inter alia, the type of aircraft flown, market densities, fuel costs and competition influenced how fares were constructed. As Mr. R. Engle, President of Northwest Territorial Airways, pointed out, NWT Air does not use a system-wide fare formula when setting fares since it operates in heterogenous markets as far as costs are concerned; in this specific case the seat-mile costs of operating a Lockheed Electra (86 seats) are significantly lower than a DC-3 (28 seats) so that fares on individual routes are determined accordingly. This, to an extent, helps to explain the divergence of opinion

regarding the level of fares in that many witnesses claimed fares were inordinately high while others said they were high, but reasonable considering the costs of operating within these areas.

Many complaints, however, are probably somewhat justified given that both major and local service air carriers in northern and remote areas operated, in many instances, as virtual monopolies. Accordingly, **we recommend that the Air Transport Committee continue to take an active role in monitoring fares and services in northern and remote areas. This not only involves reviewing applications for general fare increases but undertaking a more pro-active role with regard to the concerns of the public in these areas***.

### 3.2 The Level of Air Fares

A continued responsibility with respect to the fares charged by air carriers operating in northern and remote areas is simply the first step. The major concern expressed by witnesses appearing before us was the high cost of air travel in these areas of Canada. We are convinced that the Government of Canada as well as the various provincial/territorial governments have influenced the high costs of operation incurred by the air carriers.

Both the major southern-based airlines and the local service air carriers were readily able to identify cost pressures unique to operations in northern and remote areas. The major airlines pointed to higher station costs and higher maintenance and aircraft servicing costs, among other factors, as affecting the cost of operations. The higher station costs are a reflection of the higher cost of living in northern and remote areas overall. Employees typically receive isolation pay and other living allowances which not only directly affect the cost of labour for the airlines but also the cost of any services they purchase. Higher maintenance and aircraft servicing costs are reflective primarily of the harsher climatic conditions of the northern regions. Of most significance to these carriers, however, was fuel costs. PWA, for example, estimated that fuel costs comprised 26% of the costs of operations in these areas but only 21% on average for its system.

The local service air carriers also highlighted many of the same cost influences detailed by the major carriers. In fact, by way of assistance to us, the local service air carriers were often and usually much more explicit in identifying problems, albeit a few were of a rather unique

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*This is developed further in Chapter 5.

and specific nature. Again, the most common concern was the high level of fuel prices in northern and remote areas. This is perhaps more fully appreciated once one learns, as the carriers pointed out, that fuel costs alone typically comprise from 20-30% of total operating costs (for example, Air Creebec 30%, Air Inuit 30%, Austin Airways 30%, Nahanni Air Services Ltd. 25%, Northwest Territorial Airways 25%). While the preceding is estimated on a system basis, costs at specific airports can be much higher; for example, NWT Air estimated on the basis of the price it was charged at Cambridge Bay that fuel costs comprise up to 50% of the total costs of operations on flights to/from this community and there were countless other similar instances cited to us. Therefore, it should not come as any surprise given these circumstances that air fares are higher in the northern and remote areas than elsewhere in Canada.

The local service air carriers, among other factors, pointed to the higher costs of maintaining stations in northern and remote areas (for example, higher construction costs for hangars, higher residential costs for employees, higher labour costs, etc.). Again, when one considers that the majority of these carriers are based, and operate primarily within northern and remote areas, one can appreciate the effect on costs and its implication for the fares which must consequently be charged.

Combined with the low traffic densities within these northern and remote markets, the effect of these cost differences for services is magnified. Accordingly, as pointed out by many witnesses, anything which the responsible governments could do to lower costs and fares would be of considerable benefit.

The Air Transport Committee can assist by continuing to review applications by the air carriers for fare increases to ensure that all cost increases are fully justified. Furthermore, we duly note that, although the federal government does not have control over many (most) of the factors that lead to higher costs of operation in northern and remote areas, certain costs (i.e., fuel prices, landing fees and other airport user costs, and the Canadian Air Transportation Tax--a passenger tax) are levied by the various governments. It is these costs, perhaps because they are under the control of the governments, about which many of the carriers and residents have expressed such concern. Calm Air, as an example, complained about rental costs, indicating that of all the costs in the aviation industry, it has been those charged by the federal government which have increased the most significantly for them in recent years: specifically, Calm Air claimed that the rent charged for its hangar facilities at Churchill has increased by 400% over the past four years. Air Inuit and Nahanni Air Services Ltd., among others, expressed similar concerns.

Perhaps the most discussion was centered around fuel prices within northern and remote areas. PWA estimated that taxes (federal and provincial) and other government fees make up two-thirds of the price of fuel. While this perhaps exaggerates the potential flexibility of the governments concerned in determining fuel prices, nevertheless **we suggest to the federal government that it consider lowering or preferably eliminating the federal sales tax on jet and aviation gasoline and excise taxes on aviation gasoline applied to the price of fuel uplifted within northern and remote areas. Assuming the airport fee applied to purchase aviation gasoline was also eliminated at airports within these areas, the price of fuel could be lowered by as much as 12%*. If the provincial/territorial governments were to adopt similar measures of tax relief, and it should be noted that some governments have already taken an initiative in this area, the price of fuel could be lowered by anywhere from another** 1.5 to 11%. A conservative estimate as to the impact of these tax reductions is a decrease of 3-4% in total operating costs although there is every reason to expect that the effect would be much greater; we are confident that the consumer of air transport services in northern and remote areas can be ensured of the full realization of these gains in the subsequent fares charged.

It should be noted that the federal government has already taken some initiative in lowering costs in these areas. Airport landing fees within northern and remote areas, as an example, have already been reduced to 50% of their original level; **we suggest the complete elimination of airport landing fees within northern and remote areas as a further step toward cost reduction for airline operations.**

**If a concerted effort by the federal and provincial/territorial governments was made to eliminate government fees, taxes, charges etc., (as noted above) at airports throughout northern and remote areas and the Canadian Air Transportation tax** was eliminated, the total costs of travel could be lowered by as much as 15-20%. In order to ensure that the consumer would immediately benefit from such actions, we suggest that the Air Transport Committee be charged with the responsibility to examine closely the tariff filings of the affected carriers so that all such savings as might be occasioned by these cost reductions are passed on <u>fully</u> to the consumer.**

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*Estimates vary depending upon the community, the base price of fuel and airport jurisdiction. Also, it is noted that aviation gasoline, the mainstay of a local service air carrier's fleet, is priced much higher than jet fuel.

**The Canadian Air Transportation tax applies to all passengers on an aircraft with a maximum gross takeoff weight greater than 12 500 lbs. The tax is set at 8% of the price of a passenger ticket to a maximum of $23.

### 3.3 Low-Priced Air Fares

Thus far the recommendations have stressed the importance of controlling the high level of air fares in the northern and remote areas both by limiting fare increases and by lowering, where possible, certain costs under the direct control of the federal and/or provincial/territorial governments.

Yet to be discussed is the level of and access to discount air fares in northern and remote areas of Canada. In respect of pricing, and in response to certain requests of northern based air carriers for unlimited freedom to reduce their fares, **we recommend that air carriers operating in northern and remote areas be given the same downward flexibility as granted carriers operating in the pro-competitive environment in southern Canada***. It is noted that several carriers have already adopted this approach and it is anticipated that other air carriers will take advantage of this opportunity to develop discount fare programs for the residents of northern and remote communities.

#### 3.3.1 Access to Low-Priced Air Fares In Northern and Remote Areas

As regards access to low-priced air fares, there was much discussion generated at the various locations that we visited to warrant more detail.

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*As of 28 September 1984, two zones based on the discount from the reference fare (which is the lowest publicly available unrestricted fare for individual carriers on file with the ATC and in effect on 1 May 1984) have been established:

Zone 1 - Unrestricted Fares, which are fares established at rates greater than or equal to 70% and less than or equal to 104% of the applicable reference (regular) fares.

Zone 2 - Discount Fares, which are fares established at levels less than 70% of the applicable reference fare level. Such fares must provide for minimum mandatory conditions of 7 days advance booking and first Sunday minimum stay, and are required to be available throughout the carrier's domestic system at the same level of discount.

All conforming fares should be filed on not less than one day's clear notice, excluding Saturdays, Sundays, and statutory holidays. Non-conforming fares need be filed on not less than 14 days notice.

The concept of fare equity, i.e., universal access to discount fare programs, was a major consideration in several presentations, mainly from community representatives and individual consumers. In addressing the issue of the high cost of air transportation in northern and remote areas, these groups or individuals supported the concept of discount air fares in general as offered in southern Canada (for example, youth, senior citizen's, family plan, standby and seat sale fares). Within this context, CP Air, the Regional carriers and a number of local service air carriers responded by describing the range of discount fares available to their customers in the northern and remote areas (Table 3.1). We are pleased to note that certain carriers, despite their monopoly position, offer a large number of reduced fares including special fares for children, youth, senior citizens and families; such fares are offered year-round and are generally available on all routes. As well, various other fare products (for example, round-trip excursion and seat sale fares) are offered although they are usually limited in availability as to number of seats and as to the times of the year, and are subject to advance purchase and minimum stay requirements*. Nevertheless, we observed that some witnesses lacked any awareness of these discount fare programs and thus concluded that the air carriers in northern and remote areas have difficulty in making potential users aware of these fares**.

Many participants stressed the importance of air travel as a means of visiting friends and relatives but indicated that certain conditions such as advance purchase and minimum stay requirements associated with special fares are not compatible with the lifestyle of the residents in these areas since they hamper spontaneous travel. In this circumstance, we favourably note that various innovative pricing policies, for example, First Air's stand-by deep discount fares for all customers, have been developed to encourage travel, especially in areas sharing a "community of interest" such as the Baffin Island Inuit centres. While certain carriers argued that the amount of stimulation that can be achieved through discount fares is limited due to the low population density within northern and remote areas or that the wide use of stand-by fares would dilute revenues, we take cognizance of the fact that inter-community travel represents approximately 50% of First Air's total traffic and that 35-40% of the carrier's passengers take advantage of some form of discount. Moreover, as clearly stated by First Air, the critical factor in the relationship between costs and revenues is that the

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*Between the time of the Hearing and the release of this Report, the Committee is pleased to note that an even greater number of air carriers serving northern and remote area residents have introduced some sort of discount fare program and therefore observes that progress is being made in this matter.

**This issue is discussed in greater detail in Chapter 2, Section 2.2.4.1.

Table 3.1

**LOW-PRICED AIR FARES AVAILABLE IN NORTHERN AND REMOTE AREAS**
**SELECTED CARRIERS**

| Fare | Carriers* | Availability | Discount off "Y" Fare | Advance Purchase | Minimum Stay |
|---|---|---|---|---|---|
| Children's (2-11 years of age) | YN,UH,MO,CP,NF ND,NV,PW,QB,TO | Year-round/All routes | 25% (YN,UH)<br>33 1/3% (MO,CP,NF,ND,NV,PW,QB,TO) | None | None |
| Youth Reservation (12-21 years of age) | NV,PW | Year-round/All routes | 25% (NV)<br>15% (PW) | None | None |
| Youth Stand-by | CP,NF,ND,YO, YN,UH,QB | Year-round/All routes (CP,NF,ND,TO)<br>/Selected routes (YN,UH,QB) | 15% (YN)<br>25% (UH)<br>40% (TO)<br>45% (CP,ND)<br>45%/65% (QB)<br>55% (NF) | None | None |
| Senior Citizen's | ND,CP,ND,NV,PW QB,YN,UH,TO | Year-round/All routes (ND,CP,ND,NV,PW,QB)<br>/Selected routes (YN,UH,TO) | 25% (YN,UH,CP,NV,QB,TO)<br>33 1/3% (MO,ND,PW) | None | None |
| Senior Citizen's Reserved Space/Round-Trip | NF,ND,QB | Year-round/All routes (NF,ND)<br>/Selected routes (QB)<br>/Seats limited (ND,QB) | 65% (NF,ND,QB) | 14 days | 1st Sunday |
| Senior Citizen's Stand-by | NF | Year-round/All routes | 50% | None | None |
| Family plan | CP,ND,NV,PW QB,TO | Year-round/All routes (CP,ND,NV,PW,TO)<br>/Selected routes (QB)<br>/Seats limited (TO) | 17% (CP,NV,PW,QB,TO)<br>25% (ND) | None | None |
| Stand-by | NF | Year-round/All routes | 50% | None | None |
| Round-Trip Excursion | YN,UH,CP,NF,ND NV,PW,QB,TO | Year-round/All routes (CP,NF,ND,NV,PW)<br>/Selected routes (YN,UH,QB,TO)<br>/Seats limited (CP,ND,NV,PW,QB,TO) | 20% (YN)<br>25% (UH,QB,TO)<br>35/45% (CP)<br>35% (NF,NV)<br>20-25% (ND)<br>25/45% (PW) | None (YN,UH)<br>7/14 days (CP,PW)<br>14 days (NF,ND,NV)<br>7 days (QB,TO) | None (YN,UH)<br>1st Sunday (CP,NF,ND, NV,PW)<br>2 days (QB)<br>3 days or 1st Sunday, whichever is less (TO) |
| Six-day Weekend Excursion | ND | Year-round/Selected routes | 33-40% | None | 1 day |
| Seat Sale | CP,ND,NV,PW QB,TO | Seasonal /All routes (CP,ND,QB)<br>/Selected routes (NV,PW,TO)<br>/Seats limited (CP,ND,NV,PW,QB,TO) | 42-54% (CP)<br>50% (ND,NV,PW,TO)<br>55% (QB) | 21 days (CP)<br>14 days (ND,NV, PW,QB,TO) | 1st Sunday |

*Air Carrier Codes: - Air Creebec (YN), Austin Airways (UH), Calm Air (MO), CP Air (CP), First Air (NF), Nordair (ND), Northwest Territorial Airways (NV), PWA (PW), Quebecair (QB), Trans North Air (TO).

Source: Evidence heard at the Hearing, supplemented by air carrier tariff filings.

Note: This list is not intended to be all-inclusive but presents low-priced air fares of significant importance offered by individual carriers.

average yield per hour over time exceeds the average cost per hour in order to produce profits. As such, **we encourage the adoption by all carriers providing service within northern and remote areas and its acceptance by the Air Transport Committee of pricing practices to facilitate ease of travel within these "communities of interest"** (for example, Gjoa Haven - Pelly Bay - Spence Bay; Holman Island - Cambridge Bay - Coppermine; Keewatin - Hudson Bay; James Bay Cree; and Nouveau Québec Inuit communities). With respect to services, **we, reflecting the concerns of the residents of these areas, encourage the air carriers, if not having already done so, to make all deep discount inventory controlled fares (often associated with a specific seat-sale program) accessible to residents of northern and remote areas.**

### 3.3.2 Access to Through Fares, Joint Fares and Reservations Systems

During the course of the Inquiry, examples were mentioned of air journeys where the fare charged varies considerably with the routing used. Although some carriers recognize their importance and apply them to their route networks, **we encourage all air carriers operating in northern and remote areas to make use of through fares and joint fare arrangements which provide significant economies to consumers.** Where participants pointed out that the lack of co-ordination of schedules between airlines has resulted in very poor quality connections and hardships for users (for example, medical patients), particularly in view of the low frequency of flights, joint marketing arrangements should facilitate travel in these areas.

As is apparent, the preceding undertakings imply that local service air carriers acquire access to the computer reservation systems of the larger carrier(s). While some local service air carriers argued that traffic levels within northern and remote areas do not justify the cost of utilizing a computerized reservation system, others pointed out that small communities benefit from this high level of sophistication through access to the total mix of pricing available throughout the particular airline system and through direct access to computerized reservations to other domestic, transborder and international points. **We encourage all carriers operating in northern and remote areas to acquire and to implement computer reservation systems; this should enable the smaller carriers to effect a better awareness and control over requested capacity such that customers might be more readily and assuredly informed as to seating availability on any given flight. Where possible, with respect to joint configuration (passenger/freight) aircraft, some reservation system should be attempted with respect to space available for cargo and mail in order that both passengers and priority freight can be accommodated.**

### 3.4 The Interdependency of Passenger and Cargo Services

Thus far there has been little discussion of the cargo services offered by the various air carriers serving northern and remote areas. This is not to understate the importance of cargo (express, mail and freight) shipments by air into these regions. As has been described, air transport is often the only link between a northern or remote community and southern Canada; even in the case where there are other means of transport, sometimes during the spring break-up and fall freeze-up periods air is the only means of contact with the rest of Canada. Shipments of food, perishables, medical supplies and other essentials are vital to the communities so affected. Accordingly, cargo takes on a much more significant role in air transport in northern and remote areas than it does in southern Canada.

Its importance is reflected in individual air carriers' activities and related revenues. Cargo, for example, provided 48% of the unit toll revenues of Calm Air in 1983*, 41% of the revenue generated in Labrador Airways' services, and PWA claimed that cargo generates 30% of its revenues to/from the Northwest Territories. The evidence indicates that in general, cargo comprises from 10-50% of the unit toll revenues earned by both the local service air carriers and the major carriers on their services in northern and remote areas in Canada--a significant proportion.

As one might expect given the preceding, cargo is not usually treated as a by-product by the air carriers operating in northern and remote areas but as a dedicated product in the same manner as passenger services are. Passengers, cargo and mail are all critical to the operations of an integral network; this is reflected in the carriers' pricing practices. Many of the operators stated that they set cargo rates in much the same way as passenger fares; in fact, one carrier, Trans North Air simply sets cargo rates according to the premise that 200 lbs of cargo is considered the equivalent of one passenger fare. Most of the airlines, nevertheless, publish a separate cargo tariff in which general and specific commodity rates are based on a minimum charge (effectively a terminal charge) and a line-haul rate. Various discounts are offered through volume discount rates and other special rates designed to stimulate traffic.

The shipment of cargo to northern and remote areas in Canada by the airlines, combined with the carriage of

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*As well, it comprised 60% of total operating revenues including scheduled and charter services. The importance of charter services is discussed in more detail in Chapter 4.

passengers enables the carriers to provide more frequent service* than might otherwise be expected. As both cargo and passengers are usually carried on the same aircraft, the analysis related to the high cost of passenger transport in northern and remote areas is equally relevant to the shipment of cargo. Compounding these problems is the uni-directionality of cargo movements with up to 90% of cargo being carried into northern and remote areas from southern Canada; to a degree, the resulting unused cargo capacity available in flights south must be reflected in the rate structure, putting further pressure on the high cost of travel/transportation. In terms of actual costs incurred, Mr. A. Saunders, the representative for Torngat Fish Producers (Labrador) noted that a 35% subsidy would be needed to make air freight rates in this area comparable to Air Canada's in southern Canada. In recognition of this, **we recommend that any cost savings derived from the programs designed to lower fuel costs, airport user fees, etc., previously outlined also be reflected in future cargo rates applicable to the movement of goods in northern and remote areas. It is anticipated that this will not only lower the costs of transport for both passengers and cargo but aid, in some measure, in encouraging the economic development of many of these areas.**

Many of the participants at the Inquiry also voiced concern about the variation in rates** between markets served by the same carrier within the same area. We recognize that many factors go into the determination of rates and that to some extent they are market-specifically determined. For the most part though, cargo rates reflect the volume of traffic being shipped; small package rates are usually set the highest, while volume shippers often receive discounts due to the revenue they provide the air carriers. Nevertheless, we sympathize with the concerns of the participants. To this end, **we recommend that any future applications for cargo-related rate increases continue to be closely examined by the Air Transport Committee to ensure that proposed increases are fully justified.**

One of the problems which has been noted previously by us and which significantly impacts on the cargo tariffs charged by the air carriers is the uni-directionality of cargo shipments. In an attempt to alleviate this imbalance,

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*Throughout this text much of the discussion is focused on passenger transport. As passenger and cargo operations both form an integral part of these air carriers' operations much of the discussion, particularly in Chapter 2, is equally relevant in respect of cargo services.

**The same opinion was expressed regarding fares within certain areas. As such, any recommendations are equally applicable to fare applications.

many of the carriers operating in northern and remote areas have introduced special rates to stimulate southbound traffic. These rates cover, inter alia, such goods as empty cylinders, soapstones, sealskins, and household goods destined for repairs. As an example, First Air notes that it is now shipping such articles as engine motors, other electrical and mechanical equipment and parts, fish, caribou, whale, seal and polar-bear meat, hides, pelts, skins, crafts and arts, camping equipment, linen and general fabrics, whalebone, ivory, narwhal tusks, VCR's, computers, television sets and so on. Some carriers have also introduced special rates on such items as country (or land) foods between communities within northern and remote areas, albeit on a limited basis. **We encourage all air carriers to implement and the Air Transport Committee to accept innovative pricing practices to stimulate southbound cargo traffic.**

### 3.5 A Note on Mail Carriage

All witnesses stressed the importance of reliable mail service in northern and remote areas as this is a most vital link with relatives, friends and businesses throughout Canada and the rest of the world. In terms of air services in these areas, mail, as distinct from cargo, also has a significant influence on the viability of air carrier operations and on the interdependent lifestyle of residents.

Mail revenue definitely contributes to the overall profitability of air carriers operating in northern and remote areas. Nevertheless, with its re-organization into a crown corporation, Canada Post has begun to renegotiate its mail service contracts in these areas with the intent of relying on cheaper surface transport to the extent possible and, also, in lowering the cost of its existing contracts with the air carriers. While this is obviously a worthwhile objective for Canada Post, we have heard evidence and are concerned that this will have, or already has had, an impact on the ability of air carriers to serve communities in northern and remote areas. **We are determined that the interests of communities should not suffer as a consequence of the new attitude of Canada Post and therefore recommend that the Government of Canada and Canada Post seriously reflect upon the various trade-offs and the consequences which their actions, if unco-ordinated, might precipitate. In view of its importance to residents and carriers, this issue should also be addressed in the context of the on-going monitoring role of the Commission with respect to northern and remote areas' air services*.**

An important aspect drawn to our attention is the role of Canada Post in distributing food-stuffs via the mail to residents in northern and remote areas throughout Canada

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*This is developed further in Chapter 5.

(for example, northern Ontario and Québec and the Eastern Arctic region). Inasmuch as postal rates for small packages are not distance-related, and are lower than the general freight rates of the air carriers (Austin Airways, in its presentation, noted that postal rates averaged 15 to 17 cents a lb), we observe that the current practice is a very effective means by which to lower the cost of transporting food-stuffs to northern and remote areas*.

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*We note that the Research Branch of the CTC in conjunction with the Department of Indian Affairs and Northern Development is at present undertaking an investigation of the cost of transporting food-stuffs to northern and remote areas and its impact on prices of the same.

Chapter 4

# CHARTER OPERATIONS

## 4.0 Introduction

Charter services in northern and remote areas may substitute for or supplement unit toll operations and, as such, have an important role in the transportation of passengers and goods. In part, the high cost of scheduled air transportation and the limited frequency of service are incentives to some consumers to utilize charter services to attend conferences or organizational workshops. Furthermore, in northern and remote areas, charters respond to the unplanned emergencies for medical evacuations, to the need for vital spare parts when essential equipment breaks down, and to the demand for food-stuffs when stocks run low in advance of the annual resupply by sea. Still, other charter operators offer specialized types of services in the form of Advance Booking Charters (ABC's) which cater to tourism markets related to fishing and hunting, all of which suggests the demand for charter services is extremely varied.

While there are many small carriers throughout the northern and remote areas which are exclusively charter-oriented, where such services are combined with unit toll operations, the greater aircraft utilization gained from the carrier's charter activity often contributes significantly to its revenues (for example, charter revenues account for approximately 40 and 50% respectively of Austin Airways' and First Air's northern revenues) thereby enhancing the viability of its overall operation. Given the demand for charter services and their vital role in these areas, there is a need to ensure that the ability of charter carriers to operate efficiently and to compete effectively, where possible, is enhanced by any changes to the regulations which relate to them.

## 4.1 Class 4 Positioning Charges Regulations

Within the context of examining the factors which influence the cost of air carrier operations and the extent of competition between air carriers, we sought and received the views of many participants as to the relevance of the Class 4 Positioning Charges Regulations. Positioning charges may be defined as a protective surcharge which is assessed--even if no positioning flights are performed--by every air carrier providing a Class 4 commercial air service in respect of each charter flight that is operated: (1) from a base from which the carrier is not licensed to operate;

and (2) with an aircraft of the same group as the group for which a carrier is licensed to operate from that base.

Proponents (for example, Austin Airways, Bearskin Lake Air Service, Air Creebec, First Air and Nahanni Air Services) who argued for the retention of these regulations saw such charges as discouraging uneconomical or unethical competition by inhibiting the setting up of operations (which is tantamount to the establishment of a base), particularly of a temporary or semi-permanent nature, without the attendant responsibilities of a local carrier with commitments to the region. Those in favour of removing the Positioning Charges Regulations (for example, Alkan Air, North Cariboo Flying Service and Rog-Air) were concerned that these particular regulations are anti-competitive and, that in cases where the consumer may have a legitimate requirement to use an alternate carrier, the individual must bear the additional cost of the positioning charges thereby incurred. Any and all such increases in costs are, of course, in direct opposition to our concern with reducing the cost to the consumer of air services in northern and remote areas.

In addition to the economic arguments surrounding the Positioning Charges Regulations, we observe that in some instances, these particular regulations are not well understood by either the public or the air carriers themselves and that there is evidence to suggest that the provisions of these regulations have been abused and are difficult to police and enforce. As such, while certain ambiguities and difficulties in the present wording of the Positioning Charges Regulations could be clarified to a degree, we are of the view that the concept of protecting a charter carrier's base by requiring a non-base carrier to assess a mandatory surcharge not related to any actual work performed, and which penalizes the user of the charter service, is inequitable in principle and impractical to enforce. Consequently, **we recommend that the Class 4 Positioning Charges Regulations be abolished.**

Nevertheless, there may be good reason to seek alternative means to effect base protection for small charter operators based in northern and remote areas. This arises from the fact that in determining present and future public convenience and necessity for most proposed fixed-wing charter air services, the Air Transport Committee is, in effect, considering the air transportation needs of a single community for a fairly small area. The carrier seeking to provide such fixed-wing charter air services, using aircraft in Groups A to E derives its main business from this demand which is primarily local in nature, and, when licensed, usually responds by becoming a permanent member of the community. As such, issuing licences for fixed-wing bases is a recognition of this expectation that the charter carrier's

first objective will be to serve the air transportation needs of the location named in its licence. It follows therefore that this particular justification for base licensing would be defeated if the regulatory system did not respond and erect some barriers between the distinct fixed-wing charter locations the licensees serve. **We recommend that to prevent the policy of fixed-wing base licensing for charter air carriers from becoming meaningless in northern and remote areas, charter air carriers operating aircraft in Groups A to E*, should be provided a degree of protection and exclusivity by means of regulatory base protection**.** Under this proposal, an air carrier licensed to perform fixed-wing charter air services using aircraft in specified weight groups at a particular base*** in northern and remote areas would have exclusive rights to charter traffic from that base. If any other Class 4 charter operator seeks to enplane passengers or goods utilizing aircraft of the same group as the group for which a carrier is licensed to operate from that base, it would have to have the written authorization from that carrier. **While relying upon the wisdom of the charter carrier(s) granted this protection at a particular location when expeditiously considering a request for a waiver of this protection, in the event that an accord cannot be reached between the applicant and the base charter carrier, the dispute will be referred to the Air Transport Committee. The base carrier must demonstrate to the Committee the impact on its operations which a waiver of said base protection might occasion. In making its judgement with respect to the application for the waiver, we recommend that the Air Transport Committee place increased emphasis on the benefits of effective competition.** As well, in adopting this stance, the Committee will visibly demonstrate its concern with mitigating any effects which might be otherwise occasioned by the creation of a potential monopoly at several locations across northern and remote areas through the implementation of regulatory base protection.

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*This would include aircraft up to the size of the DHC-7, F-27 and HS-748.

**It is understood that regulatory base protection would not prevent or prohibit any other Class 4 charter operator from deplaning traffic at the protected base. Also, carriers based in northern and remote areas would be able to conduct charter operations between their protected bases and any point in southern Canada subject to the charter regulations in effect for southern Canada.

***In this context, a base is defined as an area 25 miles in radius measured from the main post office at the base from which a Class 4 charter commercial air carrier is licensed to operate or, if there is no main post office at that base, from the latitude and longitude of the base.

There are a number of obvious circumstances where regulatory base protection would not apply. These include, inter alia, situations in which: (1) the air carrier has a licensed base within the 25 mile radius for the charter being conducted; (2) the aircraft to be used belongs to a weight group for which the base carrier is not licensed; and (3) the charter, as contracted for, cannot be performed by the base carrier due to restrictions imposed on its licence or its operating certificate. As well, regulatory base protection would not apply where: (1) the charter is operated in courier service, pursuant to subsection 112(12) of the Air Carrier Regulations; (2) the charter is a domestic Advance Booking Charter (ABC (domestic)), an Inclusive Tour Charter (ITC), an ABC/ITC or a Common Purpose Charter (CPC) for which the Committee has issued a permit; (3) the charter is operated in forest fire control and detection operations; and (4) in case of an emergency, the charter is required for reasons of public health or safety.

We recognize that the area for potential charter demand at northern and remote communities is small for fixed-wing aircraft greater than Group E. Charter operators using large aircraft seldom cater solely to localized transportation needs. Therefore, inasmuch as regulatory base protection, in our view, is primarily justified by the necessity to encourage, to strengthen and facilitate the provision of local transportation services at northern and remote communities, **there appears to be no reason to extend such protection beyond Group E aircraft.** However, these operators would continue to be licensed by base and would continue to be subject to applicable regulations including the requirement to furnish transportation upon reasonable request and to provide adequate service, equipment and facilities at their base.

### 4.2 Combination of Aircraft Weight Groups

As to other regulatory concerns which relate to and affect an air carrier's ability to effectively compete, several carriers responded favourably to a proposal initiated by Liard Air Ltd., at Fort Simpson, N.W.T. regarding the possible combination of aircraft weight Groups A,B and C into one group. In supporting this suggestion, carriers felt it would streamline the present application process and give charter operators greater flexibility in responding to the needs of the market (for example, mining, gas and oil development fields). We are in full agreement with the principle that smaller carriers should be given a freer rein to make economic decisions affecting their own business operations. However, in light of our recommendation with respect to regulatory base protection, rather than create an amorphous all-encompassing weight

group which might lead to a lessening of competition at a particular location, we favour an approach whereby a licensee, having once established the present and future public convenience and necessity for charter air services in either one of the Groups A, B, or C could simply amend its capacity by adding or deleting aircraft Groups A to C in accord with perceived demand by merely demonstrating its financial fitness to the Committee. This would achieve the identical result sought by the carriers and, at the same time, would avoid any uncertainties and ambiguities that could arise under a policy of regulatory base protection. Therefore, **we recommend that, having once demonstrated present and future public convenience and necessity, licensed charter carriers authorized to operate aircraft in Groups A, B or C be exempted from all but the financial, insurance, ownership and operational requirements of licensing for any subsequent application(s) to provide services using fixed-wing aircraft in weight Groups A to C for which they have not been licensed previously.**

### 4.3 Other Considerations

As mentioned earlier, many carriers--unit toll and charter--providing services in these northern and remote areas were very much in favour of streamlining the present regulatory process so as to reduce their administrative burden and to afford them the opportunity to compete. These sentiments were echoed by other participants, for example, the Government of the Northwest Territories and Sunrider Transportation Ltd., an Edmonton-based tour operator. One major concern was the extensive paperwork requirements associated with the operation of Advance Booking Charters (ABC's) and Inclusive Tour Charters (ITC's). In the same vein, we heard evidence that travel conditions governing ABC's and ITC's should be kept to a minimum. Insofar as the Sunday rule for ABC's is concerned, a participant (Conifair Aviation Inc.) stressed that this minimum stay requirement is not practical for tourism markets related to fishing and hunting and recommended that this requirement be changed to a minimum stay of five nights, even if no Sunday is involved. It was also suggested that the Air Transport Committee should review its procedures with a view to lessening airline (charter and unit toll services) statistical reporting requirements. Consistent with our view that charter operators must be allowed to operate efficiently and to compete effectively, **we recommend that the ATC should review its procedures with a view to lessening unit-toll and charter airline statistical reporting requirements. We also recommend that the Air Transport Commitee examine by seeking and, in a timely manner, acting upon the advice of the air carriers, tour operators and public with respect to: (1) the extensive paperwork requirements associated with the operation of Advance Booking Charters and Inclusive**

Tour Charters; and (2) the travel conditions associated with the preceding types of charters including the relevance of the minimum stay requirement for tourist markets such as hunting and fishing operations.

Chapter 5

## MONITORING: THE ON-GOING REVIEW PROCESS

In announcing the New Canadian Air Policy, the then Minister of Transport stated with respect to northern and remote areas that, "There is a need also for regular CTC hearings on the adequacy of service and for more active CTC monitoring of the performance of carriers operating in this part of the system, to ensure that they serve their public as well as possible."* This directive constitutes a sentiment which was shared by all the public who recommended to us that in addition to reviewing the services on a regular basis, the ATC should discharge this specific responsibility with the assistance of individuals from each area who are familiar with its particular problems.**

As a response to these expressions of desire, we have sought to ensure that the monitoring process to be instituted will effectively address the individual service requirements of consumers in the various areas of northern and remote Canada. **We recommend: (1) that a number of specific monitoring sectors be designated***; (2) that for each monitoring sector**

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*"New Canadian Air Policy", Hon. L. Axworthy
Minister of Transport, 10 May 1984.

**This desire to have some form of "local" involvement in any subsequent ATC hearing process with respect to northern and remote areas was voiced throughout this Inquiry.

> "...should have as part of its mandate, local northerners familiar with northern transportation issues."
>
> - Labrador Inuit Association, Nain, Labrador. 1 June 1984

> "...establish an actual presence in the North and appoint a northern resident to the Commission."
>
> - Government of the Northwest Territories, Frobisher Bay, N.W.T. 26 July 1984

***For the northern and remote areas, these monitoring sectors would be: La Basse Côte Nord and Labrador; Nouveau Québec, Baffin Island and the Eastern and High Arctic Islands; northern Manitoba and northern Ontario; the Keewatin and the Kitikmeot region; the MacKenzie River Basin, northern Alberta and northern Saskatchewan; Yukon and northern British Columbia.

**the Air Transport Committee nominate a specific Commissioner* and Commission staff members who together with representatives nominated by the provincial/territorial government(s) will form a co-ordinating committee; (3) that each co-ordinating committee ensure that an on-going review process is instituted and that public meetings with respect to the adequacy and quality of air services in the monitoring sector are held (a) at least every two years, (b) at accessible locations in the communities in the sector, and (c) at times (dates and hours) convenient to the citizens of these communities; and (4) that at the termination of the public meetings in each monitoring sector, the co-ordinating committee ensure that a timely report on the adequacy and quality of air services is prepared and presented to the Air Transport Committee (and, if the President of the Commission deems it appropriate, it may be transmitted to the Minister of Transport) for consideration and action where required.**

As part of the on-going review process and as background for the public meetings, **we recommend that each co-ordinating committee have prepared and distributed in advance a monitoring review document with respect to each monitoring sector** which will address, inter alia: (1) a statistical description of the Canadian air transport industry in general; (2) an analytical description of the recent changes to air services and fares instituted by the air carriers; (3) a discussion of any impact on the fares or services as a consequence of (a) capital assistance and/or reductions in taxes, fees etc., by the Governments of Canada and the provinces/territories**, and (b) mail contract-related activities of Canada Post; (4) a documentation of any complaints which the ATC has received with respect to air services and fares; (5) a description of any developments in the social context of providing the air services such as (a) increased employment opportunities in the industry for the Native Peoples, (b) increased accessibility by the Native Peoples to the various services in their languages, and (c) the role of the media, including CBC Northern Services, in publicizing air services and fares; (6) the improvements needed or made to the airport facilities and navigation aids and other infrastructure; and, (7) the prospects for further extension of the more pro-competitive attitude with respect to new unit toll and charter services in northern and remote areas.

In making the preceding recommendations, **we are of the opinion that an on-going monitoring process may also be relevant to air services in specific areas of southern Canada and, as such, recommend that the Air Transport Committee consider its institution in any parts of southern Canada where it would be useful.**

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*Where appropriate, the Committee might request a Commissioner to assume responsibility for more than one monitoring sector.

**See Chapter 2, Section 2.2.2 and Chapter 3.

Chapter 6

# AIRPORT INFRASTRUCTURE

## 6.0 Introduction

At each location we visited across the country various representatives of communities, air carriers and territorial/provincial governments detailed their problems and concerns related to airport infrastructure* in northern and remote areas of Canada. We were surprised and at the same time deeply concerned that so many witnesses would feel the need to appear before us detailing problems related to airport facilities, runways, weather reporting and communication facilities, Instrument Landing Systems (ILS) and Distance Measuring Equipment (DME) availability among others. We were also requested, on several occasions, by representatives of various communities to assist the community in securing and upgrading its airport as the federal government's Arctic Air Facilities Program seemed to be in a state of limbo.

As a result of these many concerns we, although recognizing that matters related to airport infrastructure are not within the Air Transport Committee's jurisdiction, have nevertheless deemed it appropriate to respond to the public's request and to discuss the issue inasmuch as it affects both the reliability and cost of air transport services** in these areas.

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*In this chapter, the concern is only with facilities provided by the federal and other government authorities. There are other concerns which have been expressed such as leasing of hangar facilities and other rentals, and the construction of buildings on government land among others; as such items directly affect the level of costs and subsequently fares and rates they have been dealt with in Chapter 3.

**As an example, one carrier noted that poor airfield surface conditions and a lack of information services (such as weather) add to operating costs. In particular, the carrier cited the financial impact of reduced engine life, premature replacement of propellers, tires and other components which are reflected in the cost of service.

## 6.1 General Observations

Witnesses appearing before us were most concerned with federal/provincial funding programs for airports--in particular the status of the federal government's Arctic Air Facilities Program--as well as the adequacy of airport infrastructure and facilities presently existing throughout northern and remote areas of Canada. One witness also expressed some concern that airport facilities would suffer as new airport development programs in the more pro-competitive zone in southern Canada diverted federal funding presently used for the construction, maintenance and upgrading of facilities in northern and remote areas.

After hearing these concerns detailed by various representatives of the many communities as well as comparable ones of the territorial and provincial governments and air carriers, we have concluded that they warrant consideration and action. **Sharing the concerns of those who appeared before us, we encourage the Minister of Transport to continue to fund the Arctic Air Facilities Program (or an equivalent program) and thereby to develop a reliable means of access to northern and remote areas in Canada. In our opinion, construction of adequate runway facilities and other airport infrastructure, including the deployment of suitable all-weather navigation aids and the like, is an essential and integral step to the realization of adequate, reliable, low-cost air transport to these communities.**

**Having heard many definitions of adequate and non-adequate airport infrastructure across Canada (and presently accepted by the various governments--federal, provincial, territorial and municipal), we encourage the various parties responsible for the provision and maintenance of airport infrastructure and facilities, which are essential to ensure any access to most of the communities in the northern and remote areas, to coordinate their activities with a view to arriving at an agreed standardization of what constitutes an adequate airport infrastructure (length of runways, navigation aids and the like). In our opinion the realization and implementation of a program based upon a common set of standards cannot but enhance the provision of an adequate air transport service to meet the needs of the people in northern and remote areas in Canada*.** As a first step in this process, we would like to suggest as a starting point the following submission, prepared by Air Creebec at our request, as to what it thought would be acceptable minimum standards for airports served by them. These included the need for:

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*With respect to the role of government in airport construction and its standardization, see Appendix A for the position of the Government of Ontario.

- runways of 3500 feet by 100 feet of hard packed surface
- runway lighting including Visual Approach Slope Indicator (VASI) and lighted windsock, approach lights, threshold lights, etc.
- cement parking of 2000 square feet
- Non-Directional Beacon (NDB) with range of 50 nautical miles
- weather reporting facilities
- VHF radio communications (122.8, 122.2)
- heavy equipment for upkeep and maintenance of strip
- airstrip and parking area appropriately fenced in, and
- fueling facilities.

## 6.2 Specific Airport Related Concerns

Based on the evidence from the residents and air carriers in northern and remote areas, there were some rather specific concerns about airport infrastructure. Given the time and effort of the witnesses who brought these problems to our attention, we deem it our duty to make these known to the appropriate authorities; for ease of presentation, the information is detailed by airport and sourced.

**PHASE 1**

Blanc-Sablon

- should be equipped with ILS to enable poor weather landings. (Mr. J. Moyen, Directeur Général, Centre de Santé de la Basse Côte Nord; Mr. R. Rousseau, Sept-Îles Chamber of Commerce; Mr. G. Lavallée, Comité d'école de Lourdes-de-Blanc-Sablon).
- needs Localizers/Distance Measuring Equipment (LOC/DME), approach lights, strobe lights at one end of the runway
- runway needs to be paved.

(Quebecair).

Chevery

- needs LOC/DME, approach lights.

(Quebecair).

Havre St. Pierre

- extension of pavement of runway to 4500 feet.

(Quebecair).

- location of the runway is unsuitable making winter operations difficult.

(Mr. P. Cousineau, Mayor, Corporation Municipale de Longue-Pointe-de-Mingan).

Natashquan

- needs LOC/DME, approach lights
- extension of the runway to 6200 feet
- extension of pavement of runway to 4500 feet.

(Quebecair).

Port Menier

- needs LOC/DME, approach lights, VASIS, strobe lights
- extension of runway to 4500 feet.

(Quebecair).

St. Augustin

- needs LOC/DME, VASIS, approach lights, strobe lights
- extension of the runway to 4500 feet.

(Quebecair)

Havre St. Pierre, Natashquan, Chevery, St. Augustin, Blanc-Sablon, La Tabatière, Baie-des-Moutons, Tête-à-la-Baleine, La Romaine, Kegashka, Baie-Johan-Beetz

- have inadequate infrastructure which creates difficulties in integrating air services on the Basse Côte Nord region of Québec.

(Mr. P. Rivest, Directeur du Transport Aérien, Ministère des Transports du Québec).

Natashquan, Chevery, St. Augustin

- need ILS localizers and DMEs to enable poor weather landings.

(Mr. R. Rousseau, Sept-Îles Chamber of Commerce).

Nain, Davis Inlet, Postville and Makkovik

- only have gravel airstrips and are not equiped with navigation aids.

(Mr. A. Anderson, Executive Director of the Labrador Inuit Association of Nain).

Hopedale and Rignolet

- have no airstrips, although noted that it is contemplated that the residents of Hopedale will be relocating their community at some time in the future.

(Mr. A. Anderson, Executive Director of the Labrador Inuit Association of Nain).

PHASE 2

Calm Air submitted a list of improvements needed at communities it serves in the Keewatin as well as northern Manitoba. The requirements are detailed in Table 6.1.

Table 6.1

AIRPORT IMPROVEMENTS NEEDED IN COMMUNITIES SERVED BY CALM AIR

| Community | Requirements |
|---|---|
| THOMPSON | - a priority is the inadequate weight bearing capabilities of the taxiway and ramp areas |
| RANKIN INLET | - ILS and approach lights |
| ESKIMO POINT | - ILS and approach lights |
| BAKER LAKE | - ILS and approach lights |
| CORAL HARBOUR | - ILS |
| REPULSE BAY | - ILS and approach lights |
| GILLAM | - ILS |
| TADOULE LAKE | - requires an airstrip and shelter<br>- lights and beacon when the airstrip is constructed |
| LEAF RAPIDS | - extension of approach lights |
| LAC BROCHET | - requires a passenger shelter<br>- beacon<br>- runway extension (currently only 3000 feet) |
| WHALE COVE | - requires a passenger shelter<br>- could also benefit from ILS and approach light installation |
| PIKWITONEI | - requires a passenger shelter |
| CHESTERFIELD INLET | - could benefit from ILS and approach light installation<br>- lengthening of airstrip (currently only 3000 feet) |
| THICKET PORTAGE | - requires a passenger shelter |
| GRANVILLE LAKE | - requires an airstrip and a passenger shelter |
| GOD'S LAKE NARROWS, GOD'S RIVER SHAMATTAWA, LEAF RAPIDS, OXFORD HOUSE | - runway improvements are required; these airstrips are soft, particularly during wet weather, often resulting in accidents |

Source: Submission by Calm Air.

As well, a number of concerns were detailed about various communities by other interested parties, they are as follows:

Whale Cove

- terminal facility is only a limited shelter with no conveniences
- weather office is located approximately seven miles from the airport; weather reports, as a result, pertain to the coastal community and are inconsistent with the weather at the airport
- telephone or communication lines between the airport and the settlement are non-existent.

(Mr. R. Kaslak, Secretary-Manager of the Hamlet of Whale Cove).

Gjoa Haven

- facilities consist only of an upgraded airstrip and an airport terminal.

(Mayor of Gjoa Haven).

Pelly Bay

- facilities consist of only an upgraded airstrip of 5000 feet; there is need to have a new airport terminal constructed but there is uncertainty as to whether a facility would be constructed as a result of the suspension of the Arctic Air Facilities Program.

(Mayor of Pelly Bay)

Spence Bay

- facilities consist of an airstrip of 3800 feet, the length of the runway is not adequate and cannot accommodate NWT Air's Electra and Hercules aircraft.

(Mayor of Spence Bay).

PHASE 3

Snowdrift

- no navigation aids; airplanes cannot land at night or in bad weather
- landing strip is too short, too narrow, too rough, too soft at one end and has a big hill at the other end
- the community has been waiting for many years under the Arctic Air Facilities Program for a proper airport to replace the unsafe landing strip it is forced to use.

(Lutsel K'e Dene Council, Snowdrift).

Fort Rae

- the community has a very unsafe airstrip and the community cannot fix it up itself because of lack of funds and equipment
- present airstrip is just sand and as there are no beacons airplanes only come in during daylight hours and then only if the weather is good
- community was supposed to get an airport under the Arctic Air Facilities Program but does not know what is now going to happen because of the suspension of this program.

(Mr. R.J. Richardson, Program Co-ordinator, Rae Lakes Dene Council, Fort Rae, NWT).

Lac la Martre

- airstrip is not safe and does not even approach government standards; there is no beacon and no equipment for observing or recording weather conditions
- there is no way for the community itself to upgrade the strip
- there is concern over the location of the airport and the effect of the cancellation of the Arctic Air Facilities Program on building a new airport.

(Mr. N. Mantla, Chairman of the Lac la Martre Settlement Council and Mr. J. Nitsiza, Sub-Chief of the Lac la Martre Band Council).

Jean Marie River

- great concern over the present condition and location of the airstrip; it is unsafe and is unusable for about one month each year during the fall freeze-up and spring break-up periods
- the airstrip hems the community in and houses are now being built alongside of it. The community has no possible means of raising enough revenue to relocate the airstrip and needs government help.

(Mr.E. Hardisty, Sub-Chief of Jean Marie River; noted by Mr. U. Schildknecht of Liard Air that complaints are well founded and extremely valid).

Trout Lake

- concern expressed over the unsafe and hazardous conditions of existing community airstrip for a number of years; it is rough with an uneven runway surface and is unusable during the spring
- concern over the airstrip's location
- Trout Lake is one of several NWT communities that does not meet the criteria to be included in the Arctic Air Facilities Program.

(Mr. E. Jumbo, Sub-Chief of Trout Lake; noted by Mr. U. Schildknecht of Liard Air that complaints are well founded and extremely valid).

Nahanni Butte

- concern about the location of the airstrip
- note that it was too soft to use in the spring, sometimes for up to 6 weeks, making medivecs impossible as well as mail and supply services.

(Mr. G. Betsaka, Sub-Chief of Nahanni Butte; noted by Mr. U. Schildknecht of Liard Air that complaints are well founded and extremely valid).

- should have proper, year-round facilities.

(Mr. U. Schildknecht, Liard Air).

Rigley, Fort Liard, Nahanni Butte, Trout Lake, Jean Marie River, Fort Providence, Kakisa, Hay River Reserve and Fort Simpson

- concern that neither the Minister of Transport nor the Territorial Government has seen fit to invest adequate resources to upgrade airstrips so that they are safe and usable 12 months of the year.

(Mr. P. Scott, Representative of the Deh-Cho Regional Council).

Watson Lake

- traveller comforts were at best minimal at this airport; given the area it serves, thought that there should be some amenities other than a few vending machines and some public washrooms.

(Mr. G. Periard on behalf of two private citizens of Cassiar, B.C.).

Dawson City

- concern with the location of and facilities at this airport; it has a short landing strip and is situated in a valley some distance from the community
- suggest that the airport be relocated closer to the city or that a lighting system or beacons be installed down the valley to assist the pilots in using the airport at night.

(Mr. P. Jenkins, Mayor of Dawson City; Mr. D. Griffiths, Manager of Airline Services for Trans North Air agreed with these comments).

Mayo

- air terminal has been in place since the late forties or early fifties and is in a state of disrepair.

(Mr. D. Griffiths, Manager of Airline Services for Trans North Air).

Fort Providence

- request the development of an all-weather airstrip to serve the community and surrounding area

- note that the airstrip (which is essential during break-up and freeze-up periods) can easily be inoperative due to:
  1) drainage problems making the strip surface dangerous for landing and take-offs
  2) there are no lights on the strip (it cannot be used during the long hours of darkness prevalent during the extended northern winters)
  3) no beacon or weather observation facilities
  4) no ground-to-air or ground-to-ground radio facilities
- concern that current Arctic Air Facilities Program is in a state of limbo and requested the Air Transport Committee to help in securing aid to upgrade the airport.

(Fort Providence Dene Band and Settlement Council Alliance).

Norman Wells

- inadequate terminal building facilities.

(Mr. K. Gray, Vice-President of the Central Region for PWA).

- ramp is too small and refuelling facilities inadequate; the mix of small and large aircraft is dangerous and immediate upgrading of air traffic control is required
- airport had a master plan prepared and approved in 1976 (since updated) but commencement is now not slated until 1987.

(Nahanni Air Services Ltd.).

Inuvik

- inadequate terminal building facilities considering its volume of traffic.

(Mr. K. Gray, Vice-President of the Central Region for PWA).

Yellowknife

- inadequate baggage handling facilities.

(Mr. K. Gray, Vice-President of the Central Region for PWA).

Fort Franklin

- has a landing strip that is only 2500 feet long; has no weather reporting systems and no navigation aids except for a low-power beacon (limits use to certain aircraft only).

(Nahanni Air Services Ltd.).

Fort Good Hope

- airstrip is too short and hence unlicenseable.

(Nahanni Air Services Ltd.).

Colville Lake

- airstrip is inadequately surfaced.
(Nahanni Air Services Ltd.).

**PHASE 4**

The Government of Manitoba submitted for our information a copy of a Manitoba remote airstrip requirements list prepared in early 1983 covering minimum system needs, for which federal funding will be required; the details of this list are summarized in Table 6.2. We also received a detailed submission from Austin Airways which included, among other things, a list of suggested improvements at each airport it serves; these are described in Table 6.3. As well, a number of witnesses addressed the concerns of individual communities during this phase of the Inquiry; they are as follows:

Gillam and Grand Rapids

- could benefit, as could many other communities in northern Manitoba, from improved airstrips and navigation facilities.

(Mr. R. Murphy, Member of Parliament for Churchill, Manitoba; also noted by Mr. J. Storie, Minister of Northern Affairs for the Province of Manitoba).

Sioux Lookout

- note that the airport has been taken over by municipal authorities under some duress from Transport Canada.

(Mr. J. Parry, NDP Candidate (now MP) for the Constituency of Kenora/Rainy River).

Moosonee

- note that there are long outstanding promises to pave the runway at Moosonee; this may be done in 1985/86.

(Mr. R. Piché, MPP for Cochrane North; also noted by Austin Airways).

- the airport is long overdue for improvements to its runway and facilities:
  1) grade of runways is poor with much of the gravel having disappeared off the runway leaving a surface composition of silty sand and very little gravel
  2) frost damage to runways, and
  3) poor drainage
- concern over approach aids versus non-directional beacons; approach aids are more important than beacons as safety of landing is far more important than getting from point A to B.

(Mr. J. McAuley, Chairman of the Moosonee Development Area Board).

Table 6.2

**MANITOBA REMOTE AIRSTRIP REQUIREMENTS**

**Part A - Communities Requiring Airstrips**

| Community | Other Means of Transport |
|---|---|
| GRANVILLE LAKE | - winter road from Lynn Lake (irregular)<br>- float and ski aircraft dependent upon conditions<br>- water traffic (local transportation) |
| GODS RIVER | - private airstrip leased on crown land |
| OXFORD HOUSE | - airstrip is currently usable but major reconstruction is required |
| POPLAR RIVER | - airstrip is currently usable<br>- barges and water transportation<br>- winter road (irregular) |
| SHERRIDON | - rail service 3 times per week<br>- float and ski aircraft<br>- partial road to within approximately 12 miles of community |
| TADOULE LAKE | - float and ski equipped aircraft<br>- winter road from South Indian Lake (very irregular) |
| WASAGAMACH | - winter road and water travel to Stevenson Island airstrip |

**Part B - Airports Requiring Upgrading**

| Community | Upgrading Required |
|---|---|
| BERENS RIVER | - fire hall, runway lights, lighted windsock |
| BLOODVEIN | - fire hall, fire truck and apparatus, maintenance shop, maintenance equipment, runway lights and communication equipment |
| BROCHET | - communication equipment, lighted windsock |
| CROSS LAKE | - gravel, concrete floor on equipment shop |
| GODS LAKE NARROWS | - gravel, lighted windsock |
| ILFORD | - fire hall, runway lights, concrete floor in equipment shop |
| LAC BROCHE | - concrete floor in equipment shop, fire truck and apparatus, runway lights, gravel |
| LITTLE GRAND RAPIDS | - fire hall, lighted windsock, communication equipment |
| PIKWITONEI | - fire hall, gravel, runway lights |
| PUKATAWAGAN | - fire hall, communication equipment, lighted windsock |
| RED SUCKER LAKE | - fire hall, communication equipment, lighted windsock |
| ST. THERESA POINT | - gravel, communication equipment, lighted windsock, fire hall, runway lights |
| SHAMATTAWA | - maintenance equipment, communication equipment, lighted windsock |
| SOUTH INDIAN LAKE | - fire hall, fire equipment, communication equipment |
| THICKET PORTAGE | - gravel, fire hall, communication equipment, runway lights, lighted windsock |
| YORK LANDING | - gravel, communication equipment, lighted windsock |

Source: Submission by the Department of Highways and Transportation, Government of Manitoba.

Table 6.3

**SUGGESTED IMPROVEMENTS AT COMMUNITIES SERVED BY AUSTIN AIRWAYS**

| Community | Improvements |
|---|---|
| ATTAWAPISKAT | CARS, CWRS, VASIS, RIL |
| BEARSKIN LAKE | NDB, CARS, CWRS, Rwy lights |
| BIG TROUT LAKE | FSS, VASIS, RIL<br>Relocate weather reporting station from lake to airport |
| DEER LAKE | CARS, CWRS, Rwy lights |
| FORT ALBANY | CARS, CWRS, VASIS, RIL |
| FORT HOPE | CARS, CWRS, VASIS, RIL |
| FORT SEVERN | CARS, CWRS, Rwy lights |
| KASHECHEWAN | CARS, VASIS, RIL |
| LANDSDOWNE HOUSE | CARS, VASIS, RIL<br>Relocate weather reporting stations from lake to airport |
| MOOSONEE | Pave runway, taxi and apron<br>FSS, replace runway lighting, VASIS, RIL |
| PICKLE LAKE | Relocate weather reporting station from lake to airport |
| PIKANGIKUM | CARS, CWRS, VASIS, RIL |
| ROUND LAKE | CARS, CWRS, VASIS, RIL |
| SACHIGO LAKE | CARS, CWRS, Rwy lights |
| SANDY LAKE | CARS, CWRS, VASIS, RIL |
| WEBEQUIE | CARS, CWRS, VASIS, RIL |
| WINISK | CARS, CWRS, VASIS, RIL |

**Legend**

CARS - Community Airport Radio Station
CWRS - Contract Weather Reporting Station
FSS - Flight Service Station
NDB - Non-Directional Beacon
RIL - Runway Identification Lights (strobes)
VASIS - Visual Approach Slope Indicator System
Rwy lights - Runway lights with VASIS and RIL

Source: Submission by Austin Airways.

- flight service stations with the normal full range of services should be established at Moosonee because of its geographic location and air traffic activity.
(Austin Airways).

Big Trout Lake

- should have a flight service station with the normal full range of services because of its geographic location and air traffic activity.
(Austin Airways).

Ogoki, Winisk, Attawapiskat, Fort Albany and Marten Falls Indian Reserve

- concern with the inadequate facilities at communities such as these that are solely dependent upon air transport.
(Mr. R. Piché, MPP for Cochrane North).

**PHASE 5**

We received a written submission from Air Inuit in the form of a spread sheet giving a description and comments regarding the airstrips at eleven communities in Nouveau Québec; this is to be found in Table 6.4. As well a number of witnesses addressed the concerns at individual communities during this phase of the Inquiry; they are as follows:

Wemindji and Chiasibi

- still do not have adequate airport facilities for use of HS-748's.
(Mr. J. Morrison, General Manager of Air Creebec).

Champion Lake, Waswanipi and Mistassini

- airport facilities are required at these communities.
(Mr. J. Morrison, General Manager of Air Creebec).

Great Whale

- note that there is a problem in regard to facilities at this community.
(Mr. P. Pelletier, Vice-President of the Québec Region and Arctic for Nordair).

Lake Harbour

- landing strip is only 1800 feet; as a result an HS-748 cannot be used.
(Mr. J. Crichton, Vice President of First Air).

Table 6.4

**AIRPORT FACILITIES AT COMMUNITIES SERVED BY AIR INUIT**

| Community | Runway Length | Distance From Community | Access Road | Extension Possibility | Conditions/Problems |
|---|---|---|---|---|---|
| AKULIVIK | 1000 feet | 1/4 mile | fair | impossible | - soft, muddy, no-compacting sand<br>- Austin fuel services<br>- flare pots<br>- good winter ice strip (January-March) |
| SUGLUK<br>SALIUT<br>SAGLOUC | #1-900 feet<br>#2-2500 feet<br>#3-1125 feet | 1/4 mile<br>7 miles<br>2 miles | fair<br>none<br>very poor | impossible<br>impossible<br>375 feet | #1- good, too close to village; abandon<br>#2- excellent ice strip, good; transportation to village by boat; abandon<br>#3- good solid base; under construction |
| KOARTUK<br>QUAQTAQ | 1500 feet; only 1100 used regularly | 1/4 mile | fair | 400 feet northerly | - sand base; soft, dished, dangerous<br>- poorly maintained<br>- good in winter<br>- Air Inuit fuel and flare pots<br>- ice strips for special needs |
| AUPALUK | 1200 feet | 1/2 mile | poor | good | - soft, sandy; muddy in spring<br>- can be compacted<br>- strong cross-wind occasionally |
| BAIE AUX FEUILLES<br>TASIUJAQ | 2400 feet | 1/4 mile | fair | fair | - good, solid base, some boulders, wavy<br>- needs grading<br>- cross-winds<br>- no ice strip |
| KANGIQSUALUJJUAQ<br>GEORGE RIVER<br>PORT NOUVEAU, QUEBEC | 1600 feet | 1/4 mile | fair | 800 feet northerly | - good base, rough, poorly drained, large boulders; dangerous<br>- poorly maintained<br>- culvert too small and freezes up |

continued...

Table 4.4 (continued)

| Community | Runway Length | Distance From Community | Access Road | Extension Possibility | Conditions/Problems |
|---|---|---|---|---|---|
| PORT HARRISON<br>INUKJUAK<br>INOUCDJOUAC | 2000 feet | 1/2 mile | fair | impossible | - soft, non-compactible sand<br>- good width<br>- high tide reaches edge<br>- good long ice stop |
| POVUNGNITUK | #1-1100 feet<br>#2-2600 feet | 1 mile<br>2 miles | poor<br>poor | -<br>- | - swamping; construction started and stopped |
| IVUJIVIK | #1-1000 feet<br>#2-2100 feet | 1/4 mile<br>1/2 mile | fair<br>fair | quite possible | #1- good, flat, ends in shallow lake<br>- Austin fuel service<br>#2- good, flat, better in cross-winds |
| WAKEHAM BAY<br>KANGIQSUJUAQ<br>MARICOURT | #1-1000 feet<br>#2-2000 feet | adjacent<br>1/4 mile | good<br>good | difficult<br>fair to good | - good, solid base, good width, rough<br>- Air Inuit fuel<br>- no ice strip |
| PAYNE BAY<br>KANGIQSUK<br>BELLIN | 1200-1500 feet | 1 1/2 miles | poor | fair | - dished, obstructions at both ends<br>- cross-winds<br>- badly drained<br>- two ice strips, solid base<br>- rather poor location |

Source: Submission by Air Inuit.

**Pangnirtung**

- landing strip should be lengthened as First Air's HS-748 service is operating under weight restrictions.

(Mr. J. Crichton, Vice President of First Air).

- concern related to the security fencing around the runway--the construction of fencing is supposedly scheduled to be completed later in 1984--and the need for the extension in length of the airstrip and its resurfacing or, as an alternative, its relocation.

(Mr. A. Osborne, Secretary Manager of the Hamlet of Pangnirtung).

- concern, again, over not only resurfacing of the runway but damage to aircraft as a result of the present surface.

(Mr. J. Peyton, private citizen).

# APPENDIX A

# NORONTAIR

# NORONTAIR*

## A.1 Introduction

During the latter part of the sixties a small local service air carrier, Georgian Bay Airways, sought to develop a unit toll air service to a number of communities in north-eastern Ontario. However, by 1969, after a number of years of sustained losses, the carrier abandoned its attempt and transferred its licence to White River Air Services who there-after operated between two of the communities. In 1971, when White River Air Services applied to reinstate much of the broader service pattern which had been operated by Georgian Bay Airways, it did so with the backing and financial support of the Government of Ontario conditioned by the requirement that the service was to be operated under the name of norOntair.

The catalyst for the Government of Ontario to propose the original norOntair contract was a combination of the lack of intra-regional service in the area and, as experience had demonstrated, the obvious need for (and request for) some sort of subsidy program in order to ensure the sustained provision of this service. In designing and instituting the norOntair program, the Minister of Transportation and Communications (and, as of 1973, the Ontario Northland Trans-portation Commission (ONTC)) was confronted by vast distances, a small dispersed population, the difficult weather conditions and the immense cost of improving the road network all in the context of improving the economic and social development of the area. Over the next few years, in close co-operation with Air Canada, the Government of Ontario developed a trio of programs, jointly known as the "Northern Air Program" with an aim to improve all aspects of air service into and within northern Ontario.

## A.2 The Northern Air Program

The first of the three activities in the Northern Air Program was the "Highway in the Skies" program. This began in 1968 and was more formally known as the Remote Airport Development (and Maintenance) Activity. This, along with a second program, the Municipal Airport Development Activity, has led to the construction of a number of airports throughout northern Ontario. Under these two programs, the provincial government provides 80% of the cost of construction of an

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*This Appendix has been adapted, in part, from the CTC Research Branch Working Paper "norOntair: The Development of the Program and Its Comparison with Possible Similar Operations in the Near-Remote Area of Québec" (Canadian Transport Commission, Research Branch, Working Paper No. 40-83-01, November 1982).

airstrip and the local community is responsible for the other 20%. This 20% requirement acts as an incentive for the community to make its airport successful and to ensure that it is kept up to standard. The government also provides subsidy monies to the municipalities to operate the airports. The success of these two programs may be judged by the fact that 11 of norOntair's 21 destinations served in 1982 did not have an airstrip of any type in 1971. Also, some of the original 10 airports did not have any scheduled air service. All airport construction and facilities had to meet accepted federal Transport Canada requirements as well as certain standards established by the Government of Ontario in order to introduce reliable all-weather unit toll air services*.

The third activity, in the Northern Air Program is the Air Service (norOntair) Activity. The original impetus for this program appears to have been the approach by Georgian Bay Airways in 1969 for subsidy monies to continue its intra-regional service. Though it did not grant the request, the provincial government looked more closely at the level of air service being provided in the area. A study completed in 1971 concluded that there was a demonstrable need for a local service air carrier type of operation in this area. It also concluded that the existing local service air carriers were not capable of satisfying expected demands in this region inasmuch as they were not able to provide service to those smaller communities that were, and have continued to be, not commercially attractive for the private air carriers.

The aforementioned analysis noted a number of problems common to all northern Ontario local service air carriers: they were not financially able to promote and market their services properly, they did not have suitable reservation systems thus making it difficult for customers to rely on the service, they did not have the capital to upgrade the equipment, they did not stress service reliability which is very important to the customer, and there was an apparent overall lack of management expertise to remedy the problems. In light of these shortcomings in the private air services, the government felt that the only way that potential customers would ever look upon air as an alternative method of transportation was if it demonstrated that it could effectively assume a greater role. The way the government perceived its role was to act, not as an air carrier, but as a developer of air services.

In early 1971, the province reacted to the problem by proposing a subsidized air service (to be operated by an existing air carrier) joining four of the larger north-eastern centres (Sudbury, Sault Ste Marie, Earlton and Timmins). Five local service air carriers responded to the government's

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*See Exhibit A1.1 for a list of the provincial standards.

call for tenders to provide the original service. In the service contract awarded to White River Air Services, the Government of Ontario agreed to a number of conditions which included: the provision of two deHavilland of Canada DHC-6's (Twin Otters) over the three year life of the contract for $1.00 per year rental, the assumption of financial responsibility for the service for an initial three year period (this has since been extended), payment of all start-up funds and payments at monthly intervals covering all deficits, to make allowance for a $150,000 depreciation, a $25,000 fee and an (unspecified) incentive bonus to be paid to the contract carrier. The administration and revenue collection was to be handled by the province and all profits and losses from the service would accrue to the account of the province.

For its part, the selected air carrier (White River Air Services) agreed to provide a network air service, to collect data on this service, and to advise the responsible Minister on all matters relating to this service. As well, White River Air Services was responsible for all of the operational aspects of providing the air service which included such aspects as: obtaining the permits, licences and certificates as necessary, all tariff related aspects, providing all maintenance, and obtaining ground and air crew. The company had to provide service on a twice daily basis to all points on the network.

Though the air carrier was responsible for all operational aspects of the service, many of these operations such as tariff filings, contracts negotiated with third parties and others had to be cleared with and approved by the Government of Ontario's Project Co-ordinator who was responsible for the norOntair project.

When White River Air Services applied to the Air Transport Committee for the first norOntair licence, its main supporter was the Government of Ontario. In its support for the original application, the government cited a number of objectives for proposing the service: to enhance the opportunity for industrial and commercial development; to reduce social isolation; and, to strengthen the private air carriers. More precise reasons given by the government included: the provision of scheduled air service between major northeastern Ontario centres which did not presently enjoy such service; the inconvenience of the once daily passenger rail service between Sault Ste Marie and Sudbury, and Timmins and Earlton; the complete lack of passenger rail service joining Timmins and Sault Ste Marie and Sudbury and Earlton; the strong community of interest (based upon car traffic and other surveys) between Sault Ste Marie and Sudbury, between Timmins and Earlton, and to a lesser degree between Sault Ste Marie and Timmins, and Sudbury and Timmins; the lack of available intra-regional service for those who entered the region by air from outside (it was very inconvenient to travel to more than one northeastern Ontario centre by

air from outside); and the need for a feeder and connector service for the mainline and regional air carriers which served these centres. In this latter context, it is noted that the province was helped in much of the early work by Air Canada to ensure that there was close co-ordination between these two operators. The proposed service was intended to be a feeder service supporting existing regional (Transair's service through Sault Ste Marie) and mainline (Air Canada's service through both Sault Ste Marie and Sudbury) north/south air services. Further to this, the original service pattern allowed for connections with Air Canada at Sudbury (to Toronto).

Though the Ontario Government realized that this service would originally not cover operating costs, it hoped that after two or three years it would become economically viable (from the point of view of covering the operating costs); in any case, it agreed to continue to support the service. In fact, norOntair has been operational for over 10 years without earning a profit and in all this time the Ontario government has never backed away from its commitment.

### A.3 NorOntair Services Since 1975

By 1975, the Government of Ontario had extended the norOntair system into northwestern Ontario. On Air Ltd., doing business as norOntair, initiated service between the northwestern Ontario communities of Kenora, Dryden, Fort Frances, Atikokan and Thunder Bay. Shortly after the preceding service commenced, Air Dale Ltd., also doing business as norOntair, joined the northeastern and northwestern services of norOntair by providing a connecting service via Sault Ste Marie, Wawa, Terrace Bay, Thunder Bay and Pickle Lake.

Until 1984, all air carriers operating within the norOntair program have provided DHC-6 (Twin Otter) service using aircraft leased from the ONTC for one dollar per year. Furthermore, all have operated only as result of being the successful bidder on a contract with the ONTC and, as such, the licences have been awarded by the Air Transport Committee only for the duration of the contract (three years).

In late 1984, the Government of Ontario will begin the next phase in the development of air services in northern Ontario which will supplement the existing norOntair program. An important element of the improvement in service will be the introduction of the Canadian designed and built Dash-8 aircraft. In keeping with the operational guidelines established to achieve the norOntair objectives, the successful bidder will lease these aircraft for $1.00 per annum per aircraft for a maximum period of five years; as well, the other costs--such as fuel (norOntair undertakes bulk purchases thereby realizing cost savings), marketing expenses and ground handling services (including landing fees)--usually borne by the ONTC in connection with the norOntair program are

also included within this new service. NorOntair does not anticipate there will be any increase in air fares as a consequence of the introduction of the Dash-8 aircraft; at present, given the Government of Ontario's capital lease program and assumption of responsibility for various operating expenses, there is approximately a 40% difference between the fares charged by norOntair and those charged by Austin Airways and other private air carriers operating in northern Ontario*. With a view toward lowering costs of air travel in the parts of northern Ontario not presently serviced by norOntair, Mr. R. Piché, MPP for the Ontario riding of Cochrane North, suggested to us that some extension of the norOntair program in co-operation with the air carriers presently providing these services is conceivable.

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*This is perhaps somewhat indicative of the savings which could be realized if our recommendations with respect to taxes, leases and fees as well as a new capital asset acquisition program were instituted; however, it is noted that we would place greater emphasis on the talents of the private sector in our recommended program, which is really a venture capital program for small business with the government taking some short term risk, inasmuch as it has left the day-to-day operations such as marketing, buying of fuel and oil, and the like to the air carrier's management. At the same time, we note and recommend for the Government of Canada's consideration in instituting such a program the efficiency criteria for air services as set forth in the norOntair Dash-8 pro forma contract (see Exhibit A1.2).

Exhibit A1.1

**PROVINCIAL AIRPORT STANDARDS**

| Facility | Minimum Requirements |
|---|---|
| Runway | Length 2,700 ft.<br>Width 75 ft. |
| Aircraft Parking Area | 100 ft. x 100 ft. |
| Pavement | Stabilized |
| Zoning | 1:50 Approach<br>1.7 Transitional Surface<br>1,000 ft. Minimum Basic Strip Width |
| Lighting | Runway, Taxiway and Apron Area Lights<br>Aerodrome Beacon<br>Obstruction Lights<br>Lighted Wind-sock<br>Standby Power Supply |
| Firefighting | M.O.T. Category "F" |
| Snow Removal | Adequate Snow Removal Equipment |
| Refuelling | Jet Fuel Type "A1" |
| Passenger Shelter | Waiting Areas, Offices Washrooms, Heating, Telephone |
| Ground Transportation | Access Road and Taxi Service |
| Navigational Aids | M.O.T. Approved N.D.B./A.G. Radio |
| Meteorological | Anemometer<br>Barometer<br>Thermometer |

Source: P.Y. Davoud, The Case for Local and Feeder Air Services.

Exhibit A1.2*

6.4 Performance Measures

A central feature of the norOntair concept is the commitment by both the carrier and ONTC to work toward higher standards and increased ridership. The basic product of norOntair is reliable, high quality air service. It is the carrier who will bear the prime responsibility for the success of this venture. The carrier is asked to provide safe, dependable and punctual air service. The extent to which he is able to do this will have a direct bearing on how norOntair prospers and grows. The present set of carriers have proven themselves to be quite capable of this task and norOntair now enjoys a reliability factor in excess of 96%.

A management incentive fee will be used as an incentive to encourage high quality service. Schedule F of Appendix II outlines some objective performance measures upon which a fixed management incentive fee can be determined. In considering periodic adjustments to this fee, allowance will be made for labour disputes, airport closures, etc. due to infrastructure problems beyond the control of the carrier.

6.5 Balancing the management incentive fee noted above there will be a series of penalty clauses noted in Section 2 and Section 19 of Appendix III (inter alia). The clauses will include such things as:

(continued...)

(Exhibit A1.2 continued)

(a) A penality of $300.00 per hour shall be assessed for each accumulated hour of the delay due to circumstances within the control of the carrier.

(b) A penalty of $50.00 shall be assesed for each day beyond a 60 day initial period after a pilot joins norOntair for failure to properly uniform air crews.

(c) A penalty of $200.00 per occurrence for failure to notify ONTC within one hour that one or both Dash-8 aircraft will be unserviceable for period exceeding 2 hours for which a spare aircraft is required (see Paragraph 12 of Appendix II).

(d) A penalty of $500.00 per flying hour will be assessed for each hour flown by the substitute aircraft, if in the opinion of ONTC the aircraft has become unserviceable through a lack of adequate inspection or maintenance on the part of the contractor.

**SCHEDULE F: MANAGEMENT INCENTIVE FEE**

a) For the period commencing and once a month thereafter the Contractor will be rewarded for good management at the rate of $ each month.

b) Such sums outlined in section a) above shall be reduced by amounts outlined in Section 19 of this agreement.

(continued...)

(Exhibit A1.2 continued)

c) Once each year commencing a review of the Management Incentive Fee shall be undertaken. Said review will consider the performance of the contractor which shall be considered, inter alia, against the following objective standards and considerations:

i) Schedule reliability: not less than 96% of all scheduled flights completed (4% cancellation rate shall be inclusive of weather related cancellation but exclusive of cancellations beyond the control of the contractor i.e., strikes, airworthiness directives and airport closures, etc.).

ii) On timetable performance: not less than 80% of all scheduled flights within 15 minutes of timetable.

iii) Mechanical reliability: not greater than one flight cancellation for mechanical reasons within the control of the carrier for every four hundred hours (.0025 per hour) flying time.

iv) Mechanical reliability: not greater than one flight delay for mechanical reasons within the control of the carrier every one hundred hours (.01 per hour) flying time.

v) Consideration shall be given to other factors including general cost escalations as well as particular circumstances of the carrier.

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*Source: Government of Ontario, "Coming in 1984 - The Dash-8; Request for Proposals: norOntair Dash-8 Operations"

# APPENDIX B

## THE U.S. ESSENTIAL AIR SERVICE PROGRAM UNDER SECTION 419 OF THE AIRLINE DEREGULATION ACT

## B.1 Introduction

The Airline Deregulation Act (ADA) passed on 24 October 1978 signaled the end of 40 years of airline regulation in the United States. Recognizing that freedom of entry and exit might lead to a reduction or loss of air service for small communities, an Essential Air Service (EAS) program was established under Section 419 of the Act to guarantee a continuation of domestic small community air service during the transition from a regulated to a deregulated environment. Section 419, which provides federal government financial assistance for continued air service to certain small communities but which is not considered as a program to develop air service at these communities, remains in effect only through 1988. The Civil Aeronautics Board (CAB) is responsible for administration of this program until the end of 1984 where upon it is the concern of the Department of Transportation.

The ADA specified how the transition from an earlier local carrier subsidy program, Section 406, which had been set up within the context of the Federal Aviation Act of 1958 in order to strengthen the infant air industry existing at that time as well as to support air service to small communities, was to occur such that the new Section 419 program was to be operational as of 30 September 1982*.

## B.2 Description of Eligible Points and Minimum Level of Essential Air Service

The communities for which a minimum level of essential air service was guaranteed may be classified into two groups:

- Under Section 419(a), those communities that were served by not more than one certificated carrier on or subsequent to 24 October 1978 were eligible for EAS designation; and
- Under Section 419(b), those communities deleted from a carrier's certificate between 1 July, 1968 and 24 October 1978, and any other communities in Alaska and Hawaii which the CAB designates as eligible could receive EAS designation.

Under the EAS program, guaranteed levels of service were established under Section 419(f). In states other than Alaska, the minimum level of service was set at two round-trips per day, five days a week, or the service level that prevailed in 1977, whichever is less. If necessary, subsidies would be provided to ensure this service level to at least one

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*Exhibit B.1 illustrates the principal events of deregulation that have occurred and those that are scheduled to occur with respect to the Section 419 program.

Exhibit B.1

**SCHEDULE OF EVENTS IN CONJUNCTION WITH ESSENTIAL AIR TRANSPORTATION UNDER THE AIRLINE DEREGULATION ACT**

| | |
|---|---|
| October 24, 1978 | Airline Deregulation Act passed. Sunset of CAB slated for end of 1984 and there was to be a gradual easing of economic regulation over markets, fares. Small non-viable markets protected by Essential Air Service Subsidy till 1988. Two-fifths of the total EAS points are in Alaska. |
| No later than April 21, 1979 | Safety standards for aircraft used by commuter carriers to provide service to eligible points were to be established. |
| No later than October 25, 1979 | The level of Essential Air Transport was to be made for all eligible points described under Section 419(a) (i.e., points served by one or no certificated carrier on or subsequent to October 24, 1978). |
| No later than January 1, 1980 | Essential Air Service Determinations were to be made for all eligible points described under Section 419(b) (i.e., any point which has been deleted from a Section 401 certificate between July 1, 1968 and October 24, 1978 and which the Board designates). |
| January 1, 1982 (onward) | New EAS points may be designated. |
| July 1, 1982 | 90-day suspension notices by carriers relying on the Section 406 program which was to be terminated were to be filed with the CAB. |
| September 1982 (onward) | New Essential Air Service determinations were to be proposed by CAB. Replacement carriers were to be sought by CAB for points subject to suspension with existing carriers to continue services on 30-day-at-a-time hold-in basis. |
| September 30, 1982 | Termination of Section 406 funding was to occur. |
| October 1, 1982 | This was the commencement date of system-wide Section 419 funding for air service in Alaska. A $13,500,000 Special Subsidy Program was to be provided to 4 local service carriers serving the 48 contiguous states. This program which was a hybrid Section 406/ Section 419 subsidy was to expire in September, 1983. |
| October 7, 1982 | This was the last day for a carrier receiving a Section 406 subsidy to file with the CAB for an emergency exemption from the specified 90-day suspension notice. |
| December 31, 1982 | CAB tariff regulation was to cease -- including mandatory joint fares for service from rural to hub points. |
| January 1, 1983 (onward) | Provisions which allow bumping of Section 406 carriers were to take effect. (In practice, no bumping has ever occurred.) |
| December 31, 1984 | CAB is to cease to exist; remaining regulatory functions are to be divided between other federal agencies, e.g., U.S. DOT, Justice Department, State Department, and U.S. Postal Service. |
| September, 1984 | A Bill proposing the re-regulation of postal service rates charged by air carriers in Alaska is under review. |
| January 1, 1985 | Postal Service is to set mail rates and undertake its own carrier selection proceedings. |
| October 25, 1988 | Essential Air Service program is scheduled to cease to exist. |

Source: Public Law 95-504, Airline Deregulation Act, October 24, 1978.

Information provided by officials in Civil Aeronautics Board.

air service focal point or hub*. In Alaska, the EAS level was established at two round trips per week, or not less than the service level which existed for such points in 1976, whichever is greater. It was possible to change the guaranteed level of service as long as it was agreed upon by all parties involved (i.e., the CAB, the appropriate state agencies and the affected communities)**.

In addition to the service level, the CAB was also required to specify for each EAS point the number and designation of hub(s), the maximum capacity guaranteed, time of flights, the maximum number of stops, and perhaps the size of aircraft, according to "Guidelines for Individual Determinations of Essential Air Transportation" set out in Part 398 of the Policy Statement issued by the Board***.

The determination of the EAS level was to be reviewed on a community basis through consultations with the interested communities and the affected state agencies, followed by the issuance of an order describing the detailed specification of the EAS requirements for the community. Subsequent to the order, the established EAS levels were to be reviewed periodically and appropriate adjustments were to be made if necessary.

## B.3 The Section 419 Program Management

When an existing carrier files a notice with the CAB and the affected parties expressing its desire to terminate or reduce service below the EAS level, the Board is required to review the level of service available at the community subsequent to the proposed reduction or removal of the service. Should the provision of essential air services be curtailed by the proposed suspension or reduction, the CAB can require the carrier to maintain such service until the community's EAS requirements can be met through alternative service. In this instance, the incumbent carrier is to be compensated under a "hold-in" rate which can be either the existing subsidy or losses incurred by the carrier for the service.

The Board is then required to issue an order requesting proposals from replacement carriers, and to investigate the capability and reliability of all applicants. If all

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*A hub is defined as a point which enplanes more than 0.05% of total revenue passenger-miles in all services in the U.S.

**This provision was used by the CAB on occasions where the weekend service was added to the guaranteed minimum level of service at a number of points in the lower 48 states.

***See Exhibit B.2.

Exhibit B.2

A BRIEF SUMMARY OF "GUIDELINES FOR INDIVIDUAL DETERMINATIONS OF ESSENTIAL AIR TRANSPORTATION"

| Items Required for Specification | General Specifications | Factors that are of importance for consideration |
|---|---|---|
| Number and Designation of Hub | An eligible point will require service to only one hub. In no cases more than two hubs. | - the degree to which the candidate hub provides access to the national air transportation network.<br>- the commercial, geographic and political ties of the candidate hub to the eligible point.<br>- the traffic level to candidate hub from eligible point.<br>- distance.<br>- size of hub. |
| Equipment | The size of aircraft may be specified. | - all aircraft must be sufficient to accommodate passengers and baggage.<br>- larger aircraft may be used over long distances.<br>- all aircraft meet FAA safety standards.<br>- all aircraft must have two engines and two pilots except where otherwise agreed.<br>- aircraft must be accessible to passengers by stairs rather than over the wing. |
| Frequency of Flights | As per Section 419(f) of the ARA. | The level of service may be extended beyond these general guidelines in certain cases, such as:<br>- historical traffic data may indicate that more frequent service is warranted.<br>- more flights are needed because smaller aircraft are being used.<br>- more flights are needed because available capacity to eligible point is being shared with traffic destined for some intermediate point.<br>- for points in Alaska if the Alaska Transportation Commission agrees that more frequent service is warranted. |
| Maximum Capacity Guaranteed | Service to and from an EAS point will be fixed at 60 passengers or less per day (or a guarantee of 60 seats in each direction). | The Board can guarantee more than the 60 seat level if:<br>- the available aircraft capacity for the eligible point is being shared with other intermediate stops.<br>- larger aircraft are required.<br>- the eligible point is extremely isolated.<br>- the eligible point has experienced a significant decrease in frequency and warrants an increase in the maximum capacity guaranteed.<br>- unusual circumstances warrant such an increase. |
| Time of Flights | - schedules in accordance with a connecting flight, if connecting is required.<br>- or, one in the morning and one in the late afternoon/evening, if connecting is not required. | |
| Number of Stops | A maximum of two stops is permitted in providing service between an eligible point and a hub unless otherwise agreed with the community. | |

carriers who have applied to provide the service are found suitable replacement carriers and no request for subsidy is made by at least one carrier, the termination or reduction of service by the existing carrier becomes effective when sufficient replacement service is in place. In cases where compensation is requested by all the applicants, all the proposals are reviewed and compared. One will be selected as the replacement carrier, and the termination or reduction becomes effective when sufficient replacement service is in operation*.

## B.4 The Subsidy Determination and Rate Calculation

In administering the Section 419 subsidy program, the Board was confronted with the dual goals of ensuring reliability and continuous service to small communities while keeping the subsidy payments at reasonable levels. Three alternative approaches to achieve these objectives were evaluated: a cost-plus system, a fixed incentive rate and a shared incentive rate. The fixed incentive approach was chosen in light of its stability, the incentive it provided to improve the subsidized service, and its simplicity to administer. As a consequence, a carrier receiving a subsidy under the EAS program is paid on a monthly basis at a rate that is fixed over a two-year period.

To the extent possible, the methodology set forth in the CAB's "Small Aircraft Costing System" is used in analyzing subsidy proposals. When a carrier applies for subsidy under Section 419(d) of the EAS program it must submit cost projections based on the use of aircraft that are appropriate for servicing the community involved. Furthermore, these costs must be broken down into direct and indirect expenses which are then examined by comparing them with the CAB's own cost estimates. The reasonableness of the carrier's projected indirect expenses are also tested through comparisons of its ratio of indirect to direct costs to that of other carriers.

The second element used to establish the subsidy rate is the carrier's projected traffic and its corresponding fares and revenues. In evaluating the carrier's estimated fare, the Board considers the fares in other markets of comparable distance and traffic density, those of the previous carrier serving the EAS point, and the carrier's own pricing practices in other markets. The carrier's fare estimates are accepted as a basis for its revenue projections if they are comparable with other criteria.

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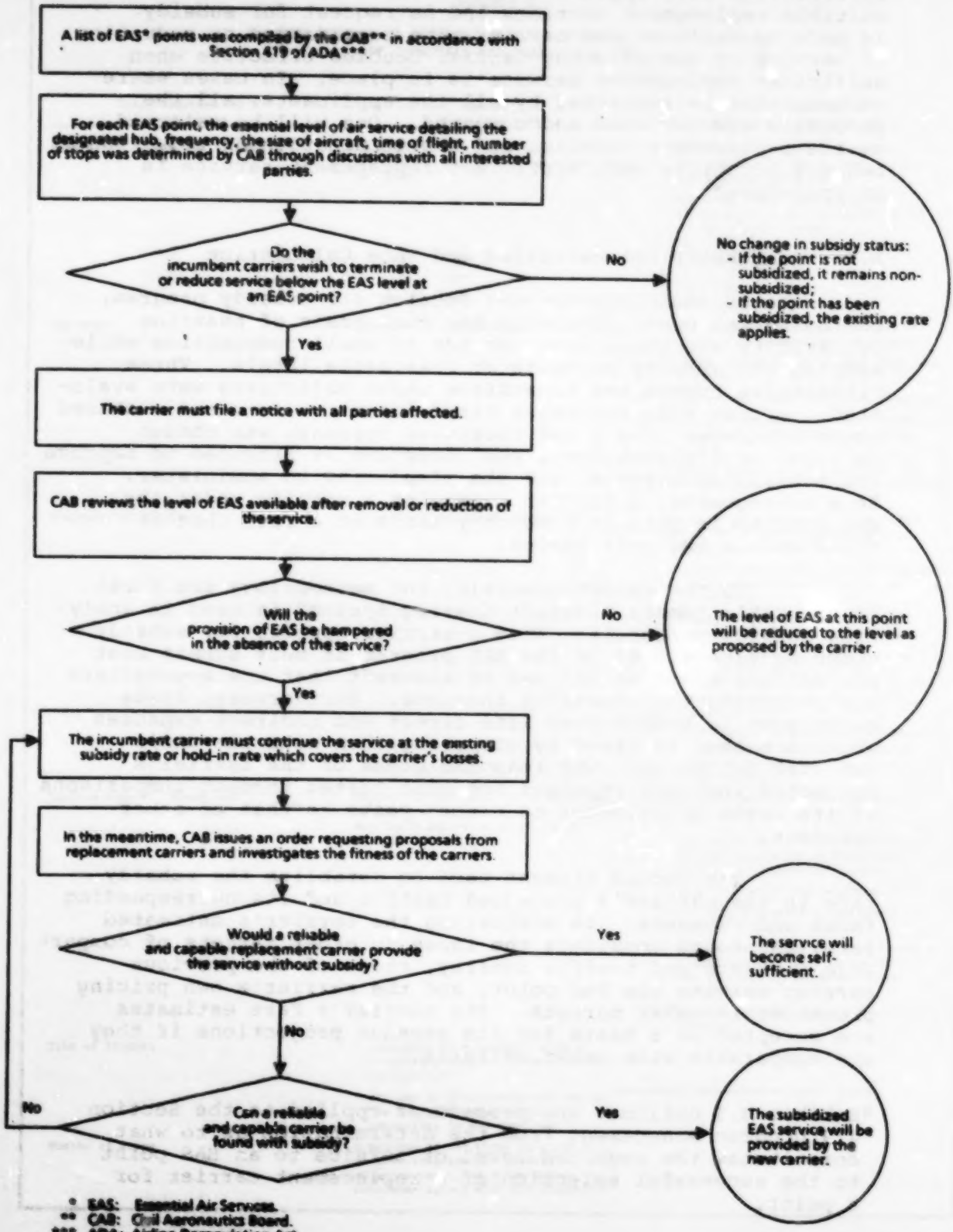
*Exhibit B.3 outlines the procedures applied to the Section 419 program management from the determination as to what constitutes the required level of service to an EAS point to the successful selection of a replacement carrier for a point.

## Exhibit B.3: SECTION 419 - PROGRAM MANAGEMENT PROCEDURES




* EAS: Essential Air Services.
** CAB: Civil Aeronautics Board.
*** ADA: Airline Deregulation Act.

In addition, a fair and reasonable profit element is incorporated into the subsidy rate. For ease of calculations, the profit element is measured in terms of a percentage of the projected total expenses. The subsidy rate, which is the difference between the projected revenues and the sum of projected expenses and the profit element, can then be ascertained.

**B.5 The Performance Results of the Section 419 Program**

The change in the subsidy program has had far-reaching consequences on the development of small community air service as well as on the growth of commuter carriers' operations. In the first place, the improvement in program management from compensation derived from carriers' overall financial requirements (under Section 406) to compensation based on a specified minimum level of service requirement at an EAS point (under Section 419) has resulted in service being more closely matched to the actual demand of the small communities. This also has led to a significant increase in the market share of commuter carriers in the carriage of small community air passenger traffic.

In addition, while the Section 406 program was limited to a number of certificated carriers, under Section 419 any carrier providing essential air transportation may apply for a subsidy. This change has extended the possibility of federal financial support to commuter carriers who were ineligible for subsidy prior to the ADA announcement. As a consequence, a large portion of the subsidized service under Section 419 is provided by commuter carriers.

As the Section 419 subsidy is determined on the minimum required level of service at an EAS point, the need for subsidy depends entirely on the daily enplanement at that point. For example, once the daily enplanement figure reaches 30 passengers at an EAS point in the lower 48 states, the service is no longer subsidized. In light of cross-subsidization by mail and cargo revenues in Alaska, the subsidy-free operations are deemed to be sustainable at a weekly enplanement of 5 or more passengers. Therefore, a transition from the Section 406 program to the Section 419 program has reduced not only the number of subsidized points but also total subsidy payments*. In fact, the number of subsidized communities has declined from 392 in Fiscal Year (FY) 1978 to approximately 134 in FY 1984, while subsidy payments have been decreased from $75,363,000 in FY 1978 to approximately $38,000,000 in FY 1984.

Despite the program's success, it is felt that the Section 419 program could be further improved by incorporating the concept of isolation into the definition of

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*Exhibit B.4 provides a comparison of results under these two subsidy programs.

Exhibit B.4

**COMPARISON OF RESULTS ON THE SECTION 406 AND SECTION 419 PROGRAMS**

| | Section 406 Program in FY 1978 | | Section 419 Program Estimated in FY 1984 | |
|---|---|---|---|---|
| | No. of Points Subsidized | Total Subsidy Payments | No. of Points Subsidized | Total Subsidy Payments |
| Alaska | 190* | $ 3 696 000 | 26 | $ 4 400 000** |
| Hawaii | 0 | 0 | 0 | 0 |
| Lower 48 States and Other | 202 | $71 667 000 | 108 | $33 600 000 |
| | 392 | $75 363 000 | 134 | $38 000 000 |

*Due to difficulties in accurately arriving at the number of bush points subcontracted by the mainline operators in 1978, the number of subsidized points is a "ballpark" estimate.

**Under Section 419(f), the EAS level in Alaska was guaranteed at either 2 round trips trips per week or not less than the service level that existed in 1976, whichever is greater. This resulted in over-subsidization of $3 500 000 involving jet service to 5 mainline points by Alaska Airlines (i.e., Cordova, Petersburg, Gustavus, Wrangell and Yakutat.) This situation has subsequently been rectified inasmuch as after October, 1986 the subsidy will be calculated according to the appropriate size of aircraft rather than jet. As a consequence, the subsidies in Alaska are expected to fall to approximately $900 000 in 1987.

eligible points. In 1983, an additional requirement on specifying EAS points in terms of isolation from major hubs was recommended by the General Accounting Office to Congress. Should the recommendation be accepted, approximately 20 points presently included under the EAS program which are located within 100 miles from the nearest hubs would be eliminated from the Section 419 subsidy program. This suggestion has yet to be acted on by Congress.

## B.6 Basic Requirements for the Program's Utilization

Having reviewed the U.S. experience in the application of the Section 419 program subsequent to the ADA announcement, it is evident that a successful implementation of the program can only be achieved if the following requirements are met:

1. The presence of a well-developed commuter airline industry is essential for the application of this form of subsidy program. The type/size of aircraft in the fleet of commuter carriers is more appropriate to provide the designated frequencies, (i.e., two round-trips per day) at points enplaning a small number of passengers per day.

2. The continuity of air service in small communities must be ensured; however, the right of existing carriers to exit from an EAS point under such a program is conditional upon the ready availability of suitable replacement carriers which implies that this segment of the air transport industry is already reasonably mature and has a sufficient number of reliable, proven air carriers.

3. The possibility of providing excess capacity to a subsidized point, such as might be associated with a program to develop air services to a particular point, cannot be tolerated. To eliminate any excess capacity, subsidy payments should be determined on the basis of the minimum required level of service at an EAS point.

4. The required subsidy costs based on the long-term passenger projection at each EAS point should be reviewed. (When considering the costs, any savings resulting from the cross-subsidization by other air services (cargo or mail) or by means of establishing a linear or cluster network configuration of neighbouring EAS points must be reflected.) Thereafter, the number of perpetually subsidized points can be derived. From the long-term prospect, the presence of a large number of perpetually

subsidized points can be costly in the absence of alternative programs to reduce the burden to the public treasury.

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